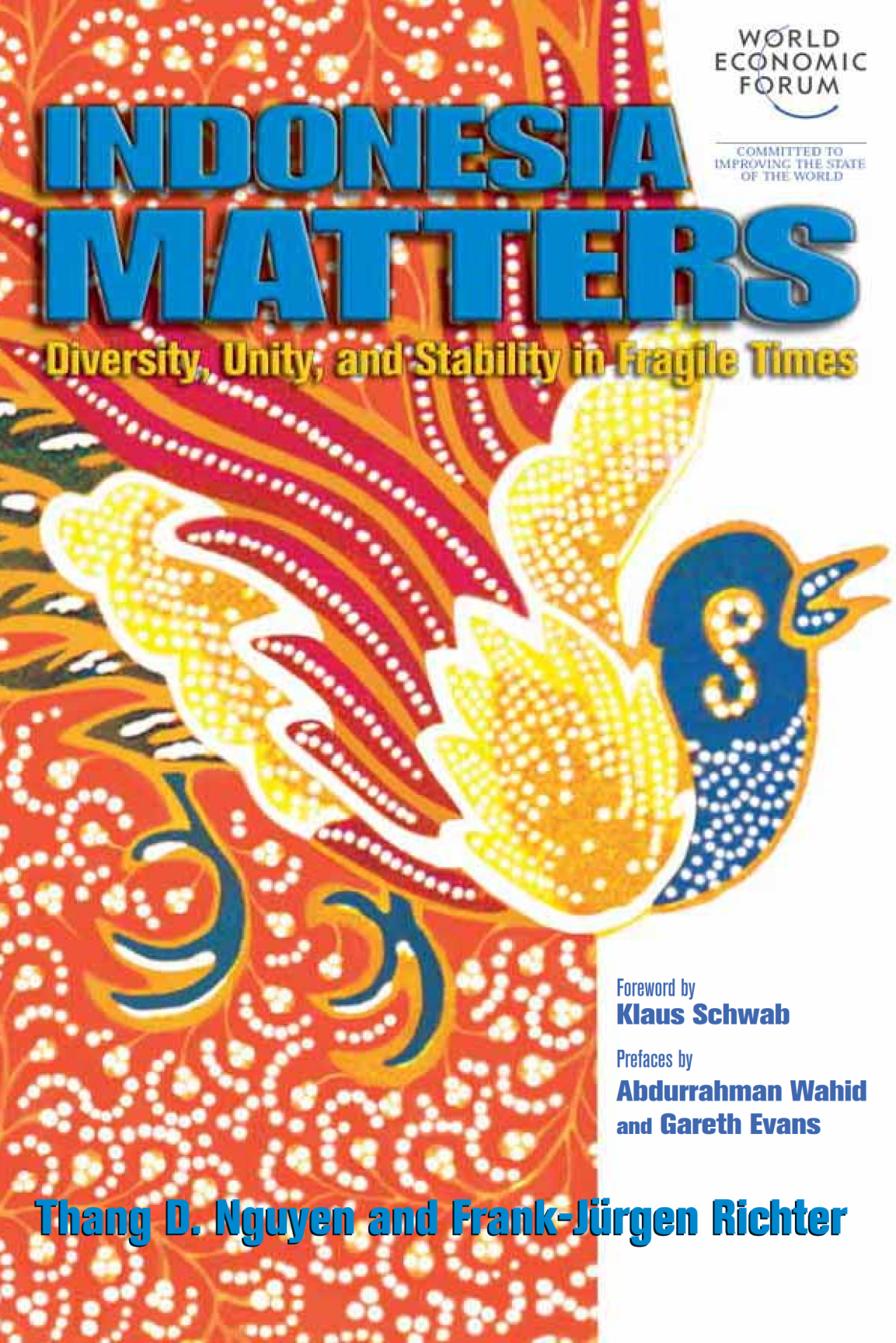
WORLD ECONOMIC FORUM
COMMITTED TO IMPROVING THE STATE OF THE WORLD
INDONESIA MATTERS
Diversity, Unity, and Stability in Fragile Times
Foreword by
Klaus Schwab
Prefaces by
Abdurrahman Wahid
and Gareth Evans
Thang D. Nguyen and Frank-Jürgen Richter

WORLD
ECONOMIC
FORUM

INDONESIA MATTERS

Diversity, Unity, and Stability in Fragile Times

Front cover: the Garuda

In Indonesia, the Garuda is seen as a symbol of national unity among its millions of people, who are of different ethnic groups, cultural traditions and religious beliefs. Derived from an ancient Indonesian myth, the Garuda is also a symbol of strength. This book takes a long-term view honoring Indonesia's greatness as a nation and its motto of "Bhinneka Tunggal Ika", which means "Unity in Diversity".

INDONESIA MATTERS

Diversity, Unity, and Stability in Fragile Times

Thang D. Nguyen
and
Frank-Jürgen Richter

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For Indonesia
and those who care about it

PANCASILA

KETUHANAN YANG MAHA ESA

KEMANUSIAAN YANG ADIL DAN BERADAB

PERSATUAN INDONESIA

KERAKYATAN YANG DIPIMPIN OLEH HIKMAT KEBIJAK-SANAAN DALAM PERMUSYAWARATAN / PERWAKILAN

KEADILAN SOSIAL BAGI SELURUH RAKYAT INDONESIA

Foreword

Klaus Schwab
President, World Economic Forum

When the 12 October 2002 bombing in Bali happened, I again found myself in a state of shock. Roughly a year after September 11, peace was once again shattered by terrorists. Taking place in Indonesia, the world's largest Muslim community, the Bali bombing proved that terrorism is beyond limits and undermined the image of Indonesia as a country and that of its mostly moderate Muslim citizens. We have seen the devastating economic impact of this tragic event on Indonesia. The post-Bali works to revitalize its economic environment will be challenging.

As the chapters in this book will illustrate, Indonesia — the world's fourth most populous country, third largest democracy, and with the largest Muslim population — is an important nation not only to Asia but also internationally. Before the Asian financial crisis of 1997, of which it was a prominent victim, Indonesia was one of Asia's newly industrialized economies. Since then, Indonesia has continued to work with its neighbors and the international community to recover from this crisis while concurrently managing its own serious domestic issues. Unfortunately, the Bali terrorist attack brought yet another crisis with which the Indonesian government is confronted.

As for the world, few would deny that we are living in times of global economic fragility and geopolitical uncertainty. In my years at the World Economic Forum, I have never seen a time in which the need for dialogue and discussion among leaders of the international community on the challenges that confront us all, is greater than now. As of this writing, the war in Iraq has come to an end — at least from an operational standpoint. The Severe Acute Respiratory Syndrome (SARS) has taken many lives in Asia thus far and interrupted the region's economic activities and many people's lives. Its negative economic impact aside, the syndrome has also become a contagion that has reached, via the international flows of travellers, North America, Europe, and other parts of the world.

While it is difficult, if not impossible, to forecast the future, we have every reason to believe that now is the time for global leaders to come together to share their ideas on how to reshape our global order. As an independent international organization committed to improving the state of the world, the World Economic Forum has been providing a platform on which global leaders from business, government, academic, and civil society — namely, our Annual Meeting, regional summits, initiatives, and communities — discuss and deal with global issues in an effective manner. Based on our experience, only by engaging global leaders in collective discussions and dialogues can a mutual understanding spark among nations and may there be solutions with which we can together make the world a better and just place. In fact, Indonesia has been, and will continue to be, a part of our international integration effort and Asian focus.

On that note, I would like to extend my deepest appreciation to Abdurrahman Wahid, former President of Indonesia, and Gareth Evans, President of the International Crisis Group (ICG), for their support, all the authors for their valuable contributions, and friends who have helped us make this book a successful project.

We look forward to working with Indonesian leaders from government, business, and civil society and their counterparts in the international society towards a stable, peaceful, and prosperous Indonesia.

Preface

Abdurrahman Wahid

Former President of Indonesia and Former Chairman, Nahdlatul Ulama (NU)

On 28 October 1928, a group of young Indonesians in Jakarta declared "one nation, nation of Indonesia; one country, Indonesia, and one language, *Bahasa Indonesia*". This was a milestone in building Indonesia as one nation that was officially formed later in 1945. The unique thing about this historical event was how these young Indonesians came to choose the language that belonged to the ethnic Malays, a minority group, as the national language of Indonesia. They did not choose the language of the Javanese, who were the majority ethnic group at that time, as the language of the country. That was an example of tolerance expressed by the Javanese to their other fellow ethnic groups as an effort to found Indonesia.

Indonesia is a country that consists of more than 300 ethnic groups, living in the world's largest archipelago. Each of these ethnic groups is very unique, with its own culture, tradition, language, and history. Despite their differences and through their historical experiences over many centuries, they did in the end agree to unite as one nation with one language that we know of today as Indonesia.

In the old days, if we look back to the 8th and 13th centuries, we would find the existence of the Kingdom of Sriwijaya in Sumatra and the Kingdom of Majapahit in East Java. Both kingdoms, according to many of Indonesia's historians, claimed that they managed to unite Indonesia under one ruler. However, their rule was said not to be as effective as that of their counterparts in China, India and Europe. In China, for example, during the Han Dynasty, Han people were found in every corner of China collecting tax and making sure that Han power reached the commoners as an effort to sustain the palace.

This was a system set out to rule people, collect taxes, and take care of daily administrative tasks that were utilized by most rulers in Asia and other parts of the world. It was, however, not the case for the two aforementioned kingdoms. They both did not have such a system because they did not really need it. Why? Because Indonesia

was like a paradise. The king did not need to squeeze people to support the palace, since food was abundantly available around the palace and the regions respectively. The only token of acknowledgement of the king's rule required of governors of regional territories was that every year the governor of a particular region ought to send gifts to the king to make him happy.

After Indonesia gained its own sovereignty from the Dutch in 1949, the process of progressing as a new democracy began. The period between 1949 and 1958 was when Indonesians started learning how to practice democracy. Indonesia succeeded in having its first general election in 1955 and formed a parliament and a cabinet. The parliament, however, did not succeed in molding a new constitution. Hence, in 1958, the Parliament forced Sukarno to issue a decree to declare that the Basic Constitution of 1945 be Indonesia's Basic Constitution. Afterwards, he terminated the Parliament and then ran Indonesia as he saw fit until 1965. Sukarno called his governing style "Guided Democracy".

In 1967, Suharto assumed power, and ruled Indonesia until 1998. He called his ruling style "*Pancasila* Democracy".[1] Then came the reformation era. In 1999, Indonesia once again encountered the rare opportunity of having a very democratic general election. However, people wanted to have changes in every facet of life very quickly, and so the implementation process could not bring about immediate satisfaction.

Meanwhile, Indonesia started to build its own power divide, that is, one between Java and the outer islands. This was the period in which the idea of centralizing power emerged. This concept significantly affected the ethnic groups in other regions — as it still does today. In 1975, the Indonesian government introduced and imposed a law on local governments that required them to follow the village model of government in Java. This, consequently, caused the extinction of many cultures and traditions (*adat*) throughout Indonesia. Moreover, the Jakarta centric government also tried the concept of modern law on people in the outer regions while ignoring the local, village traditional ways of life that had already been around for many centuries. That, as a result, started to spread cross-cultural problems that eventually emerged across Indonesia.

1 *Pancasila* is Indonesia's state ideology that consists of five principles: nationalism, democracy, internationalism, social justice, and belief in one God.

History shows us that tribal wars often occur amongst different ethnic groups. To be sure, Indonesia is no exception. However, Indonesians have learned to live together and with a great deal of tolerance. As a nation of numerous diverse ethnic groups, Indonesia has demonstrated a high level of tolerance. In many cities in Indonesia, for instance, people can witness that mosques and churches are built and located next to each other. During a Friday prayer session, Indonesian Muslims may use a church's parking space to park their cars. Likewise, Indonesian Christians are allowed to park their cars in a mosque's parking lot during a Sunday service. Another display of tolerance is that a girls' drum band may practice in the front yard of a mosque. This is something that is hard for Indians to believe, as such a thing could not happen in any mosque in India.

In a nutshell, diversity and tolerance can play a critical role as one of the sources of progress in Indonesia. Based on our past experiences and the lessons our own history has taught us, we can predict Indonesia's future based on these two factors.

DIVERSITY

Indonesia has a state slogan called "Unity in Diversity". We Indonesians strongly believe that we can live in unity despite our differences. Another state slogan says: "If we unite we become stronger, if we stand alone, we will be easily defeated by others." History has taught Indonesians that in order to survive, they need to put aside their differences and live together in unity.

Today, thanks to rapid developments, modern means of communication, and technological advances, cross-cultural understanding has become much easier to achieve. Among young Indonesians — or their counterparts from abroad for that matter — the Internet is a great way to bridge cultural divides. This virtual interaction gives them a sense of, and reminds them of, the need to be united as one people. Music is another great means to this end. Songs in a particular ethnic language, in many cases, praise unity and celebrate diversity. State slogans like "*Bhinneka Tunggal Ika* (Unity in Diversity)", to a large extent, have been accepted by the majority of young Indonesians.

Furthermore, as the country has been further developed, nowadays Indonesians can easily travel from one place to another. People from

every corner of Indonesia can come to Jakarta, the capital city. What does it mean? Even though they understand they are different in one way or another, they can live together and are linked together as citizens of one united nation.

Finally, diversity can be considered Indonesia's national asset as well as its unique cultural product. It is a sort of diversity that cannot be found in any other nation. For example, our diversity in foods, landscapes, dances, traditions, etc, are wonderful cultural goods that we can offer to the world. Nowadays, there is a trend that consumers love to taste the uniqueness, originality of goods and services that cannot be obtained or experienced in their local surroundings. I therefore believe that, in the age of globalization, cultural diversity is a product in which Indonesia has a great competitive advantage vis-à-vis other countries in the world. As such, diversity can be considered a true potential source of progress for Indonesia. Indonesians have to grasp and develop it further and then offer it to the world.

TOLERANCE

The word "tolerance" may have more meanings to Indonesians than it does to other peoples. Right from childhood, Indonesians are taught to live with their fellows from other ethnic groups. As a result, they have to learn to understand and accept one another. They are accustomed to the "give and take" concept.

This practice of tolerance can be seen in their family life, village life as well as in city life. There are many cases in which members of a family practice different faiths, but still live together and respect each other's religious freedom. The phrase "*Gotong Royong* (working together)" is still a spirit of people in local areas when it comes to building roads, dams, schools, etc. In the cities, the word "*Arisan*" is a term referring to a club of saving schemes that is commonly practiced to develop a self-help mechanism amongst community members of a residential area. The tradition to honor a guest is also still a daily practice in almost every village and also in cities.

What does this imply? Tolerance for cultural diversity, apart from being regarded as daily practice in Indonesia, can be seen as an asset to Indonesians themselves. To people from other parts of the world, Indonesians' tolerance for cultural diversity is actually a unique, rich

experience when they visit Indonesia. They can get the experience of staying with Indonesians in a village or in a city. They can see for themselves how tolerant Indonesians can be. As such, Indonesians have to take advantage of their cultural diversity and tolerance. To be blunt, Indonesia has to sell this practice to the rest of the world, give its people job opportunities and, thereby, enable themselves to realize the "Indonesian dream". By so stating, I have established that cultural tolerance is another very potential source of progress for Indonesia.

Question: can Indonesia maintain its cultural diversity and tolerance as Indonesia's sources of progress by 2020 and beyond?

Answer: yes, provided that every Indonesian recognizes the importance of these two crucial factors and knows how to sustain them. Most importantly, they have to live them. Otherwise, it will be only a matter of time before Indonesia stops progressing.

Preface

Gareth Evans
President, International Crisis Group (ICG), Belgium

For the world's fourth largest country, Indonesia is extraordinarily opaque. Even its nearest neighbors and most experienced analysts have difficulty explaining how this archipelago of thousands of islands and hundreds of ethnic groups hangs together as a nation. But it does, and it is critically important to international peace and security that it continue to do so.

Indonesia's successful transition from authoritarianism to democracy is not only important for its estimated 230 million citizens. It also has implications for the stability of Southeast Asia; the relationship between Islam and democracy in Muslim-majority countries; the continued viability of regional institutions such as the Association of Southeast Asian Nations (ASEAN); the management of ethnic and religious tensions in multi-ethnic societies; and the ability to counter transnational crimes ranging from people-smuggling to terrorism.

This book brings together some of the wisest observers of Indonesia's transition and manages to touch on all of the key issues that will ultimately decide Indonesia's fate: the legacy of the Suharto past; the role of the military; constitutional changes; economic policy; foreign relations, particularly with respect to two key countries, Japan and the US; the resolution of ethnic conflict; and the maneuvering within the political elite. It does not necessarily offer prescriptions for how to manage problems, but it lays out in sobering detail the extent of the challenges that Indonesia faces.

The book will be an invaluable guide to policy-makers. It will also go a long way to giving readers the basic information with which to analyze developments in a country of immense strategic and political importance.

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Introduction

Thang D. Nguyen and Frank-Jürgen Richter

Selecting a title for this book has been a challenging task for us. After considering many fine suggestions that have been given to us and thinking of a title that can best describe Indonesia as a nation and points out the most pressing challenges with which it is confronted, we chose *Indonesia Matters: Diversity, Unity, and Stability in Fragile Times*. As a double-meaning word, *Indonesia Matters* refers to the country's importance to both Asia and the international community and, at the same time, connotes the very cultural diversity and social complexities that can either make Indonesia a great country or turn it into a place of turmoil, violence, and distrust.

The world's fourth most populous country and home to its largest Muslim community, Indonesia is located at a most critical and strategic point. An archipelago of about 1,919,440 sq. km and 13,667 islands, Indonesia stretches from the western end of Australia to the south-eastern tip of Malaysia, lies in the Indian Ocean, and is connected to both the Pacific Ocean and South China Sea. It is also resource-rich and home to some 300 ethnic groups with different dialects, traditions, and faiths.

Unfortunately, Indonesia has — especially since the 12 October attack in Bali — been, and still is, poorly perceived by the international community. For those who read or watch news about it, the name Indonesia connotes a debt-ridden and corruption-filled economy, a place of religious and ethnic conflicts, a country of radical Muslims, and a haven for Al Qaeda-linked terrorists. There are also those who do not believe that the Indonesians can and will ever get their act together to make their country a better place; for them, the more support — finance, technical assistance, or otherwise — Indonesia receives from the international community, the more moral hazard it begets.

Fortunately, there are those who are better informed about Indonesia. There are also those who think that Indonesia is a nation that matters not only to its Asian neighbors but also to the international society. And there are those, who, well aware both of Indonesia's many long-existing and challenging issues and its many potentials, remain optimistic that Indonesia can make a comeback in the future and be the great nation that it can be.

This is how the international community sees Indonesia. How do Indonesians themselves perceive of their own country? Does Indonesia really and still matter? What are the most critical challenges that confront Indonesia? Is diversity an asset or a liability to Indonesia, or is it both? Is there hope for Indonesia's future? What must the Indonesian government do to bring about a more stable political environment and economic growth? And, finally, can there ever be national unity in Indonesia?

In addition to answering these and other key questions on Indonesia, this book aims at making it more visible on the radar screen of global leaders from business, government, academia, and civil society. At the same time, the book serves as a reminder to the Indonesians of their most serious issues, of their diversity and other qualities that make them a great people, and of the much-needed work that they must put in to better themselves and their country. As an attempt to achieve this double-tasked challenge, we have gathered this volume of essays and articles from a group of diverse, well-informed, and experienced contributors — some of whom are continuously engaged in the World Economic Forum's activities. We trust that, together, the chapters ahead are the most timely and much-needed discussions on Indonesia. To that end, let's start with a brief review of Indonesia's modern history.

THE FOUNDING OF INDONESIA AND THE SUKARNO YEARS

After a long period of colonialism and a four-year struggle against the Dutch, Indonesians claimed independence on 17 August 1945. From 1945 to 1949, Indonesia established itself as a parliamentary democracy under the leadership of President Sukarno. History will remember President Sukarno as Indonesia's founding father. A great orator who enjoyed synthesizing ideologies, Sukarno is often credited for molding the motto "Unity in Diversity" (*Bhinneka Tunggal Ika*) and *Pancasila*, the state ideology that is based on five principles: belief in one God, humanitarianism, national unity, democracy, and social justice. Derived from the Javanese legend of Purushada, *Bhinneka Tunggal Ika* connotes the sameness among Indonesians: that they can live together in harmony, even though they are of different traditions, faiths, race, etc. *Bhinneka Tunggal Ika* is still today an ideal because, as we will elaborate later, Indonesia's political, social, and economic conditions hardly allow for it to be actualized.

Next, Sukarno took Indonesia through the "Guided Democracy" period from 1959 to 1965. Guided Democracy has been criticised for its flaws as a patchwork of personal opinions and ideas and not a process that is based

on discussions, debates, a check-and-balance mechanism, or majority rule. "Guided democracy," writes Adam Schwarz, "its title notwithstanding, meant in practice a return to a system of personal rule more reminiscent of Javanese feudalism than the chaotic democratic experiment of the 1950s."[1] As a matter of fact, no one can better explain the working concept of Guided Democracy than Sukarno himself, who once said: "In Guided Democracy the key ingredient is leadership. The Guider … incorporates a spoonful of so and so's opinions with a dash of such-and-such, always taking care to incorporate a *soupçon* of the opposition. Then he cooks it and serves his final summation with 'OK, now my dear brothers, it is like this and I hope you agree …' It's still democratic because everyone has given his comment."[2]

Although he was an intellectual who was well-versed in political ideas, Sukarno was a stranger to economics. Instead of a market economy, he adopted a system known as "Marhaenism". Naming it after a land-owning farmer whom he met on a field trip, Marhaenism was Sukarno's ideal of a classless society in which every Indonesian would have equal access to land and other means of production — the equivalent of the Jeffersonian yeoman or the Marxist proletariat. Perhaps Sukarno linked a market economy to western capitalistic colonists and, therefore, chose Marhaenism.

It still debatable today whether Sukarno and his colleagues knew how to manage the country that they took back from the Dutch and if they knew what the best economic model was to adopt after their victory. In retrospect, Sukarno and his colleagues won the first phase of their struggle against the Dutch, i.e. peace, but lost the second, i.e. post-war economic development. Without the latter, the former had hardly any meaning. Put in a nutshell, Sukarno "failed to deliver the fruits of the revolution [independence]: better food, better education, better homes and employment."[3]

History will also remember the end of Sukarno's presidency well. A mysterious military coup on 30 September 1965 turned out to be the event that toppled Sukarno and started General Suharto's 32-year rule. On that fateful September evening, a group of seven pro-Sukarno and leftist officers who called themselves the Thirteenth of September Movement kidnapped six generals and a lieutenant. That night, the seven officers were killed. The Thirteenth of September Movement claimed that this was a

1 Adam Schwarz, *A Nation in Waiting: Indonesia's Search for Stability* (Australia: Allen & Unwin, 1999), p. 16.
2 Quoted by Schwarz, pp. 16-17.
3 Lee Khoon Choy, *A Fragile Nation: The Indonesian Crisis* (Singapore: World Scientific Publishing Co. Pte. Ltd., 1999), p. 3.

pre-emptive strike to prevent a coup by a Council of Generals. Whether or not this claim was true or if the Council in fact existed, Major General Suharto responded by taking control of the army, told Sukarno that his time was over, and became Indonesia's second president on the morning of 1 October 1965.[4]

THE SUHARTO YEARS: VOLCANOES UNDER SNOW

While history may be hard on Suharto for all the wrongs that he did while he was president, he should be remembered and credited for Indonesia's foreign policy — particularly in being at the helm of Indonesia as the leading member of the Association of Southeast Asian Nations (ASEAN) and other organizations — and, most importantly, for developing the Indonesian economy. Until today, Suharto is still thought of as Indonesia's Father of Development (*Bapak Pembangugan*). During his presidency, which is often referred to as the New Order period, Indonesia became a newly industrialized economy (NIE), or one of Asia's second-tier "tigers." Unlike Guided Democracy, the New Order focused on the country's economic development, rather than blending and experimenting with political ideas. Nevertheless, the Suharto presidency has been destroyed, for the most part, by his out-of-control children, cronies, and years of KKN (corruption, collusion, and nepotism), Java-favoritism, and *tri fungsi* (triple functions): that is, the military's role as the national defender, its role in politics, and its involvement with the Indonesian business world.

Unlike Sukarno who was told by Suharto himself that his time was over, Suharto walked out of Freedom Palace to the crying sound of students, NGOs, and the people on the streets of Jakarta, and other major cities, demanding him to step down. The end of Suharto, along with the May (13-14) riots of 1998, marked the beginning of a period of divisiveness, turmoil, and atrocities in Indonesia.

What can explain the root causes of the May riots in which over 1,000 were killed in some 5,000 Chinese-owned stores and buildings and dozens of women, mostly Chinese, were assaulted and raped? One simplistic analogy that may help us in trying to answer this question is to think of Indonesia as "volcanoes under snow", with the economy and government as snow and its people as volcanoes. When the economy is healthy and the national leadership strong, Indonesians are willing and able to overlook

4 Schwarz, p. 19.

their class, ethnic, regional, and religious differences and live peacefully together. It is because everyone is employed and can therefore meet his basic ends and support his family. However, when the economy is troubled — as it was during the Asian financial crisis of 1997 of which Indonesia was one of the most prominent victims — and the leadership at the top is weak or in a vacuum — as it was when President Suharto was forced to resign — poor and powerless Indonesians start to ask why their rather more fortunate fellowmen can continue living a comfortable life when they struggle to survive. Out of destitution, the "have-nots" turn to violence against the "haves" as a solution to their problem. This is when the snow melts and the volcanoes erupt, and the haves become scapegoats. This time, it was the ethnic Chinese who were the scapegoats.

THE CHINESE

Out of fear, many ethnic Chinese left Indonesia. Economically speaking, their departure added to a capital flight of considerable size at a time when Indonesia needed liquidity most to recover from the Asian financial crisis. A look into the history of ethnic Chinese in Indonesia offers a clear explanation of what many call "the Chinese factor" in the Indonesian economy and society.

There are three factors that may explain the root causes of why so many have been, and still are, hostile towards Chinese Indonesians. The first is called the "the wealth gap." The ethnic Chinese comprise about 2.8 percent of Indonesia's population, but they own about 70 percent of the country's wealth — while about 80 million Indonesians live below the poverty line. The second is the indigenous (*pribumi)* versus non-indigenous (*non-pribumi*) divide. The overseas Chinese (*Huaqia* in Chinese), who are known for their entrepreneurship, arrived in Indonesia — Java in particular — before the Dutch. They were mainly traders, who established good relations with the pribumi rulers and served as a link between Indonesia and the outside world.[5] During the Dutch colonial period, the Chinese were hired by the Dutch as middlemen to supervise the pribumi workers. The third factor is Suharto's favoritism of the Chinese tycoons (*cukongs*). It is a known fact in Indonesia that Suharto did the *cukongs* and their conglomerates many political favors. This favoritism has certainly made the cukongs stronger than their pribumi counterparts.

5 Leo Suryadinata, *The Cultures of the Chinese Minority in Indonesia* (Singapore: Times Books International, 1997), p. 26.

When one puts these factors together, one can see why there has been, and still is, a strong anti-Chinese attitude among Indonesians. The *pribumi* Indonesians feel that their Chinese fellows have come to their archipelago as outsiders and now rule the economy and are treated better than they. In other words, "the Chinese, who are comparatively well-off, stick out like a sore-thumb and become a thorn in the flesh of the Indonesian society."[6]

To be fair, however, let us ask if the Chinese Indonesians deserve to be treated as if they were not citizens of Indonesia. For one thing, not all of the Chinese Indonesians succeed in their businesses because they receive political favors. Furthermore, they have come and lived in Indonesia for generations. Most young Chinese Indonesians who were born and raised on Indonesian soil have Indonesian names, and some do not even speak Chinese or celebrate the Chinese New Year. Despite their effort to assimilate into the Indonesian society and their love for Indonesia as their homeland, Chinese Indonesians still experience discrimination: among other things, their ID cards still categorize them as such, although until recently, there was a ruling not to use the word "*non-pribumi*" on official documents. As Charles Coppel points out, in many Indonesian minds, the ethnic Chinese remain as aliens.[7]

To be frank, the discriminative treatment of Chinese Indonesians speaks poorly of Indonesia as a diverse society. When one looks at Indonesia's Asian neighbors, namely Thailand, which is known for its receptive treatment of not only Chinese Thais but also of foreigners, one can see that fair treatment of the Chinese minority both helps to create a sense of national belonging and benefits the business climate. A case in point is the fact that quite a few Indonesian Chinese live in Singapore and many others go there on weekends for shopping. In order for the ethnic Chinese to continue contributing to both the Indonesian economy and society, a positive change in their treatment is necessary.

THE ECONOMICS OF POLITICAL STABILITY

As the experience of Chinese Indonesians illustrates, race is certainly a crucial matter in Indonesian politics. So is economics. The economy is the most crucial factor in the overall stability in Indonesia — or that in any other country for that matter. As a chicken-and-egg relation, a country's

6 Lee, 230.
7 Charles Coppel, *Indonesian Chinese in Crisis (*Oxford: Oxford UP, 1983), p. 171.

economy is determined, among other factors, by how stable it is politically. To see the close link between Indonesia's economy and its political stability — or the lack thereof — let us look at the following data.

	1998	1999	2000	2001	2002	2003
GDP growth % (real)	–13.1	0.8	4.9	3.4	3.7	3.0
GDP Rp tn (current)	965	1,100	1,265	1,449	1,610	1,808
CPI (consumer price index) %	77.5	2.0	9.4	12.6	10.0	9.0
X-rate to US$1,year end	8,025	7,100	9,595	10,400	8,940	10,500

Source: James Castle, Peter Duncan, and Andri Manuwoto, CastleAsia, PT Jasa Cita, Jakarta, Indonesia.

If anything, these economic indicators correspond to Indonesia's political changes since 1998. As mentioned earlier, Indonesia was one of the four most prominent victims of the Asian financial crisis — the three others were Thailand, Korea, and the Philippines. The fall of Suharto added fuel to the fire, and the Indonesian economy came to a collapse. Vice-President B. J. Habibie took over the presidency. Constitutionally speaking, President Habibie could have stayed in office for few more years, but he called for the 1999 election, which was regarded by international observers as the most democratic one in Indonesia's history. To be fair, given the immediate post-Suharto disastrous economy and the setting of the election in 1999, it was remarkable that the Habibie administration was able to bring the GDP growth rate to 0.8 percent in 1999 from –13.1 percent in 1998. Equally, it was able to bring the inflation rate, as reflected in the CPI change, down to 2.0 percent in 1999 from 77.5 percent in 1998, respectively.

Abdurrahman Wahid, who is also affectionately known as Gus Dur,[8] became Indonesia's fourth president following the 1999 election. In office for 18 months, Gus Dur was forced to step down in 2001 — which he did in a peaceful manner, after telling thousands of his Nahdlatul Ulama (NU) followers not to demonstrate for him — and was replaced by then Vice-President Megawati Sukarnoputri. Within four years, Indonesia has changed

8 Gus stands for "baGus", a term used to address the son of an honorable person. In villages, a *Kiai* (or the owner of a Muslim boarding school) is considered the most honorable person. Hence, the son of a *Kiai* is referred to as "Gus". It is then followed by a short version of the son's name. Gus Dur, therefore, stands for Ab-**Dur**-rahman Wahid, who is the son of Kiai Wahid Hasyim.

its president three times, and these changes in its national leadership have had quite an impact on its macroeconomic environment.

Thus far, the Megawati government's performance has been marked with some positive macroeconomic indicators: a better exchange rate, a reduced inflation rate, and a higher growth rate between 2001 and 2002. It is reasonable to assert that the growth rate in 2002 — and the one in 2003 for that matter — could be around the 4.5–5.0 range, had it not been for the 12 October 2002 attack in Bali that killed nearly 200 persons, most of whom were foreigners.

The Bali bombing has severely damaged Indonesia's tourist industry and its exports-producing sector — most of which is Java-based — as tourists chose to visit other locations in Asia. The economy also began to experience a series of capital flight as foreign investors and businesses began to withdraw their funds and staff and cut jobs. Put in a nutshell, the attack was a blow to Indonesia's foreign direct investment (FDI) and its macroeconomic climate, which had already been deteriorating pre-12 October. A case in point is Indonesia's declined rank in the World Economic Forum's *Global Competitiveness Report 2002–2003*.[9] In this report, Indonesia's Growth Component Index (GCI) ranking went from 63 in 2001 to 67 in 2002, or –4 as a difference. The GCI has three components: technology ranking, public institutions ranking, and macroeconomic environment ranking. Out of the three components, the difference between Indonesia's ranking in 2001 and 2002 of the latter two is equally a –12, and that of the former is –4. This comparison highlights the close link between political stability and economic growth and stresses the importance of public institutions — or their creation — that Indonesia's social, corporate, banking, and political reforms require.

THE ISLAMIC FACTOR

Since the tragic events of 9/11, Indonesia, home to the world's largest Muslim population, has been regarded by some as a haven for terrorists on the theory that they might have links to Al Qaeda. If anything, the Bali attack provided a "smoking gun" for this claim and proved that terrorism has and knows no borders and proved that no country — non-Muslim or Muslim — is immune to it. At the same time, the Bali bombing has damaged Indonesia's international image as a moderate Muslim country: when hearing the name Indonesia, many immediately link it with terrorism. Most

9 Information on this publication is available at http://www.oup-usa.com/reports/wef.

of those who think like this may not know that the radicals are only a very small minority in Indonesia's Muslim community. Their ignorance of this fact aside, this is Indonesia's image; this is how Indonesia appears in the international media.

It must be acknowledged that the Megawati government has done a good job in cracking down on radical Islamic groups. One week before the Bali attack, the government disbanded Laskar Jihad, a Jogjakarta-based militia known for its use of violence in Central Sulawesi, and its leader Ja'af Umar Thalib for his connection to a violent attack in Ambon in 2002.[10] The government has also arrested the terrorists responsible for the Bali attack and some other radical Muslim leaders, such as the fundamentalist group Jemaah Islamiyah's Abu Bakar Ba'asyir, who once said: "I support Osama Bin Laden's struggle because his is the true struggle to uphold Islam, not terror — the terrorists are America and Israel."

Bin Laden, it seems, is not the only figure whom radical Indonesians support. As most Indonesia observers had expected, demonstrations against the Iraq War took place in Indonesia in early 2003. During the War, some Muslim Indonesians, like Ubaidillah, a member of the Front Pembela Islam (FPI, or Islamic Defenders' Front), even claimed that they were willing to go to Baghdad and fight for Saddam Hussein.[11] Whether or not young Indonesian Muslims like Ubaidillah have actually ended up going to Baghdad is another story. The point is that radical Muslims groups like FPI and their activities hurt Indonesia's international image, make its foreign relations more difficult to manage, and more importantly, they drive away foreign investment.

THE CONSTITUTION, THE MILITARY, AND DECENTRALIZATION

In terms of constitutional reforms, the current government has shown signs of progress thus far. For instance, in August 2002, the People's Consultative Assembly (MPR) approved a set of constitutional reforms that, if implemented properly, will improve Indonesia's political image and environment a great deal. Designed to take full effect by 2004, the reform package focused on three critical areas, namely: the executive power, the role of the military in Indonesian politics, and Islamic fundamentalism. The MPR voted for an electoral system in which the president is elected

10 Sidney Jones, "Indonesia Briefing", International Crisis Group (CGI), Jakarta/Brussels, 24 October 2002, p. 6.

11 Sadanand Dhume, "Saddam's Volunteers", *Far Eastern Economic Review* (FEER), 10 April 2003, p. 50–52.

directly by the people, a military that is professional and a government that is both civilian and secular.

Few who are familiar with Indonesia's history and politics would deny that the passing of these laws is a major event, and the new legislation could serve as a spark for more positive changes in the future. In the past, the president used to be elected indirectly by the MPR members who gave their votes of confidence. Under the new legislation, the president will be elected by a popular vote. The reform on the role of the Indonesia Military (TNI) separates the armed forces from its politics and removes the 38 seats in the House of Representatives (DPR) that in the past were reserved for its members. Breaking from this dual function (*dwi fungsi*) carries two crucial implications. First, it makes the TNI professional, that is, its main function is to defend Indonesia and to protect its people. Second, and more important, it will help the TNI cleanse its image of past violence and human-rights abuses in the now independent East Timor and many other regions.

That the MPR rejected a motion to institute *Syari'ah*, or Islamic law, across Indonesia is a positive statement that Indonesia is a democracy and not a theocracy. Some have voiced concern that Indonesia could easily become an Islamic state. The MPR's rejection of a cross-country application of *Syari'ah* law supports the view from most experts on Indonesian Islam that the possibility of Indonesia becoming an Islamic state is very unlikely and that those who desire such a system are a minority in Indonesia's Muslim community.

Recognizing the potential danger of a domino effect that other regions would follow in East Timor's independence from Jakarta, the Indonesian government signed a peace accord in Geneva, Switzerland, in December 2002 with the Free Aceh Movement (GAM). The accord was to give Aceh more autonomy but not full independence.

Unfortunately, instead of peace, Aceh is now in a state of war with Jakarta. On Monday, 19 May 2003, the Indonesian government deployed about 35,000 troops to Aceh for an offensive after martial law was declared in the province, which has been in conflict with and calling for independence from Jakarta for the past 27 years. The go-ahead for this deployment, which is Indonesia's largest military operation since its occupation of the now independent East Timor in 1975, was given not too long after talks between the government and GAM in Tokyo collapsed. Military chief, Endriartono Sutarto, was quoted by Reuters on Tuesday, 20 May 2003, as saying that the troops' task "is to destroy the armed forces of GAM through their roots."

It is probably too early to tell how long the offensive will be or what its aftermath will be. It reminds us all, however, that decentralization (or

regional autonomy) remains to be a No 1 item on Jakarta's political agenda in the coming years.

CANDIDATES, PARTIES, AND THE 2004 ELECTION

As 2004 is not too far away, it is indeed exciting to look forward to an election in which, for the first time in Indonesia's history, the people will directly elect their president. This has a few implications, however. The first implication is that political parties should have by now identified their presidential and vice-presidential candidates. At the moment, it is quite unclear who will be running for president or vice-president. Besides President Megawati and Speaker of the People's Consultative Assembly, Amein Rais, who are perceived as rather firm runners for the presidency, other names that have been mentioned are: (1) Jusuf Kalla, currently Co-ordinating Minister for People's Welfare; (2) Nurcholish Madjid, one of Indonesia's leading Muslim intellectuals; (3) Syafi'ie Ma'arif, the head of Muhammadiyah, a large moderate Muslim association; and (4) Susilo Bambang Yudhoyono, currently Co-ordinating Minister for Politics and Security. It remains to be seen who will end up running for president and vice-president. For now, these are the names that those who are interested in the 2004 election should look out for.

The second implication, which is directly related to the first, is that an early selection of candidates will help both the parties and the Indonesian electorate. As it was in the 1999 election, the key parties to keep in mind for the 2004 election are: (1) Megawati's Indonesian Democratic Party of Struggle (PDI-P); (2) Golkar; (3) Amein Rais's National Mandate Party (PAN); National Awakening Party (PKB) — which is Gus Dur's party. It is worth reminding ourselves the Islam factor in Indonesian politics. In the 1999 election, for example, as the former head of NU, Gus Dur's votes came mostly from its followers. Likewise, as the former head of Muhammadiyah, Amien Rais also got quite a number of votes from the association's members. As a matter of fact, Amein Rais led the "Central Axis" ("Poros Tengah"), an association of Islamic parties to oppose Megawati's election in 1999. It remains to be seen whether this move would take place in 2004. According to Sidney Jones of the International Crisis Group (ICG), "those who help organize it [Poros Tengah] say it does not exist as such any longer, but it is still an important political force under whatever new name it may take."[12]

12 Jones, p. 2.

For the parties, an early identification of their candidates will help them with their campaigning, planning, public-relations, and voter-targeting strategies. For the people, it will help them identify the candidates for whom they want to vote and what platform they have, if any. As Indonesia is moving toward a more democratic society, it is about time that it adopts a market model of liberal democracy, i.e. a political system in which a voter is the consumer of jobs, social benefits, and other items on a candidate's platform and the candidate supplies them to the voter in return for his vote. In this context, Indonesia's electoral system is one based on, to use microeconomic terminology, an oligopoly rather than perfect competition: even though there are many parties, it is a few key parties like the aforementioned ones that can influence the election and make it to the final round.

The third, and final, implication is that non-government organizations (NGOs) and members of civil society will have much grass-root work to do, particularly in the outer islands and remote regions, in preparing for the general public for the election. As in other developing countries, an average, poor Indonesian does not have the resources (time, knowledge of platform issues, etc) that would enable him to participate in the election. If there is no preparation or empowerment of the grass-root voters in other regions of Indonesia, the elite in voter-rich Java will once again be dominant force in the political process. If democracy is not paralleled with a platform-oriented campaigning process, jobs, and an education of the citizenry at the grass-root level, it will only benefit the elite members of society and can, as a matter of fact, beget further social violence.

LOOKING TOWARDS THE FUTURE

The prospects for the 2004 and the most critical issues with which Indonesia has been, and still is, confronted are analyzed by our diverse, well-informed, and experienced group of contributors throughout the pages ahead in the following order.

Part 1 presents us with elaborate discussions on the "nuts and bolts" of Indonesian politics. We are taken through the changes in the Indonesian presidency since Sukarno. We learn about the background, personality, presidency, and the fall of Suharto. We also learn quite a bit about Abdurrahman Wahid the great respected Muslim cleric and the president. Part 1 also gives us a brief comparison of the presidencies of Sukarno, Suharto, Habibie, Wahid, and Megawati. The section also addresses the

military's role in post-Suharto Indonesia and the need for constitutional reform in light of the 2004 election.

Part 2 deals with key social issues, namely: (1) the root causes of social violence in Indonesia; (2) Islamic fundamentalism and radicalism in Indonesia; and (3) diversity. Our contributors in this section point out the most critical challenges that have been confronting the Indonesian society. Their perspectives contain hope for progress on these issues and point out where the reform focus should be and what social and political changes in Indonesia require.

Part 3 focuses on economic issues. They include: (1) Indonesia's monetary policy after 1997; (2) prospects for a rules-based economy in Indonesia; and (3) the importance of civil-service reform in economic development. The contributors in this section illustrate how problematic the Indonesian economy has been, and still is, and identify the much-needed reforms or policies that can improve Indonesia's business climate and bring about growth. The section discusses the role of international economic organizations, such as the World Bank and the IMF, and stresses that when making recommendations to or policies on Indonesia, they need to think about their long-term impact on the Indonesian economy and take into consideration the interests of the local, Indonesian businesses.

Part 4 is about Indonesia's leading role in and importance to Asian and international relations. In this section, we learn about the importance of Indonesia to ASEAN (Association of Southeast Asian Nations), the history of US-Indonesia relations, and Japan's commitment to Indonesia's economic development. The chapters herein explain why Indonesia matters both to Asia and the outside world and maintain that support from the international community to Indonesia needs to be continued for positive reasons.

Part 5 ends the book with a comprehensive outlook on Indonesia in 2003 to 2004 and some worst — and best — case scenarios in Indonesian politics by 2020. While showing some optimistic views on Indonesia's future, the chapters in the final section are quite cautious of Indonesia's long-existing issues that, if not addressed and dealt with properly, can put Indonesia in future crises.

Does Indonesia still matter? The answer from our contributors and ourselves, the editors, is a resounding yes. Given its size and leading role in ASEAN and international affairs, it is, therefore, in the interests of Asia to have a stable Indonesia as their neighbor. Likewise, as the world's fourth most populous nation and home to its largest Muslim community, it is in the interests of the international society — including the Asian Development Bank (ADB), the World Bank, the IMF, and other international organizations

— that Indonesia become stable and grows economically. This means that these organizations should continue their support and technical assistance to Indonesia, especially in the areas of poverty reduction, financial and corporate reforms, and economic development. While all of these areas are critical, poverty reduction should be a priority not only for developing purposes, but also for eliminating terrorism: even though poverty is not a root cause of terrorism, it is a handy tool with which terrorists can manipulate poor, innocent citizens for the wrong cause, bearing in mind that Indonesia has more Muslims than any other country in the world. Trade is as important, if not more so than, aid in development. In this area, the international community can also help by increasing its trade flows to and from Indonesia.

At the same time, this book reminds Indonesians of their most pressing issues and emphasises that they have much to do to bring about stability, without which there cannot be progress, peace, and prosperity. As illustrated earlier, social stability in Indonesia is related to economic stability in a direct manner; social unrest drives FDI away from Indonesia and undermines its economic growth, but poor economic conditions beget social unrest and conflicts. In addition to a healthy economy, social stability, and strong political leadership, which are the three pillars on which Indonesia can build its future, the chapters ahead also remind Indonesians of their recent history in the hope that their unfortunate past will not be repeated in the coming years. Most importantly, it encourages their government to create a sense of national unity and revitalize the spirit of "Unity in Diversity" and sustain it with social, economic, and political conditions that are just.

Indonesia is now as much "volcanoes under snow" as it is "volcanoes under storm." This storm comes from the current global economic uncertainty and geopolitical fragility that have an impact on Indonesia and everyone in the world. Globalization is a double-edged sword indeed: it facilitates the international flows of trade, finance, communications, but at the same time, it spreads diseases, financial and other crises worldwide. Whatever Indonesia does to improve itself and survive this global storm, one thing is clear: now more than ever, it needs national unity and stability. By reconciling and uniting its diverse constituents in government, business, and civil society and with support from the global community, Indonesia can achieve progress — and in doing so, it will set an example for other countries to follow.

Progress is waiting for Indonesia. The road that Indonesia has to take to reach this destination is long, exhausting, and filled with many formidable obstacles, but it cannot afford to take comfort and must keep walking.

Part I

POLITICS

The Suharto Regime 1967–1998: What Went Wrong?

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INTRODUCTION

Suharto has been a towering leader of Indonesia for almost 32 years. He has pursued economic development of the country and has brought greater prosperity to the populace. He has been, therefore, called the Father of Development.

Under Suharto, Indonesia was able to catch up with other economies in East Asia. In the 30 years of Suharto's rule, its per-capita GNP increased from less than US$ 300 to US$ 1,200. Indonesia graduated into a middle-income country. It also became a second-tier East Asian tiger, following the four Asian Newly Industrializing Economies (NIEs), namely South Korea, Taiwan, Hong Kong and Singapore. The number of people living below the poverty line also decreased from close to 70 percent of the total population in the late 1960s to about 17 percent in the early 1990s. Suharto had, however, undone his own achievement by allowing corruption, collusion and nepotism (KKN) to flourish. His other mistake was his unwillingness to make the political system more open and flexible. Most importantly, he was unwilling to change his authoritarian system of government in order to preserve his power. By staying too long in power, he defeated himself.

In retrospect, that's the essence of Suharto's fall, but let's ask, what really went wrong? It is obvious that some of the problems originated externally, and that Suharto really had no influence on them. However, other factors, particularly the inflexibility of the economic and political systems, have compounded and exaggerated the external impact.

Suharto had mismanaged the financial crisis, which eventually became a total disaster. One needs to understand Suharto the person, his character, his strengths and weaknesses, and his ideas as a leader of Indonesia in order to understand how he had mismanaged the crisis.

SOME HISTORICAL BACKGROUND

Suharto came from a simple background. His father was a small bureaucrat, taking care of the irrigation system in a village near Jogjakarta, Central Java. His parents were divorced immediately after his birth, and for some years, his grandmother took care of him, until he went to live with an uncle.

He has had the equivalent of a primary-level education and joined the training program for the military just before World War II. Under the Japanese occupation he joined the indigenous self-defense force established by the Japanese and rose to become an officer. When independence was declared in 1945, he was one of the senior officers in the defense force and became commander of the Jogjakarta military region in 1947. His main achievement was the attack against the Dutch during the occupation of Jogjakarta in early 1949. He rose through the ranks and in 1957 became commander of Central Java, one of the 3 main military districts of Indonesia.

He was disciplined in 1959 because of his involvement in controversial barter trade (direct export and import) as military governor of Central Java. This occurred during the state of emergency that was declared in 1958 due to regional insurgencies in Sumatra and Sulawesi. His involvement in this activity showed not only his interest in economic and commercial issues but also his relaxed attitude towards the rules.

After finishing a staff and command course in Bandung, he was made head of the Strategic Reserves of the Army in 1960, and when the struggle against the Dutch in West Irian (now Papua) was proclaimed by President Sukarno in 1961, he was appointed commander of the military command *Trikora* (The Three People's Command). Being successful in preparing for a one-way attack against West Irian, President Kennedy intervened, and Ambassador Ellsworth Bunker became a mediator through the United Nations.

In 1963, after a six-month transition period under the UN Command, West Irian became part of Indonesia, and through an act of free choice in 1969, the United Nations General Assembly sanctioned it officially. Suharto then went back to the Strategic Command of the Army. While considered to be a senior officer, he was left out from the day-to-day decision making by the Commander of the Army because he was not considered educated enough as were the others in the team and also because of his rather leftist leanings in political ideology. This was a common trait of any Javanese commander who was not Western-educated.

In 1964 when President Sukarno declared confrontation (*confrontasi*) against Malaysia, which he considered a neo-colonialist instrument, Suharto

was only appointed as a deputy to the then Commander of the Air Force, a very strong Sukarno-ist and a leftist, and also very much junior to Suharto. Suharto was very disappointed and was on the verge of resigning from the army in May 1965, but was advised not to do so by his staff and friends.

When the aborted coup of 30 September 1965 took place, he was already disillusioned with Sukarno's leadership. He took the initiative on the morning of 1 October 1965 to resist Sukarno's instructions. As the army's newly appointed commander, Suharto re-established the army's command to restore order and security.

He succeeded in constitutionally removing President Sukarno by consolidating the army and with the overwhelming support from the people, especially the students and intellectuals. In the struggle between the Communist Party (PKI) and anti-Communist forces before the abortive coup, political tensions were already very high, and that was how Suharto obtained the support of the anti-Communist forces, who considered him a hero and savior of the country.

Since Sukarno had already neutralized the civilian forces, the army was the only force which was able to balance the Communists. They became the dominant force under Suharto in the wake of the demise of President Sukarno and the banning of the Communist and other leftist parties. Suharto took advantage of the situation by establishing the army as a second line of authority and in many cases to replace the civilian bureaucracy that he did not trust completely.

Suharto made use of the economists under Professor Widjojo Nitisastro of the School of Economics at the University of Indonesia to restore the economy. They were known to him before as they were teaching at the Staff and Command School of the Army and were also known to be anti-Communist. They were given the nickname "the Berkeley mafia" because the most senior ones had graduated from the University of California at Berkeley. Rehabilitation of the economy between 1967 to 1969 and then the first Five-Year Development Plan (1971 to 1976) were formulated by the group with the support of Suharto and backed by the Western countries and Japan, who were relieved that Indonesia did not become a Communist country in 1965.

Suharto, however, never completely trusted his economic team. He also used Ibnu Sutowo, the head of Pertamina, the national oil company, to short cut policies which he thought were too slow or incorrect. In 1973, after Ibnu Sutowo got into difficulties because of over-extension and corruption, Suharto made use of the engineer Habibie, who became his protege to balance the economic technocrats. Habibie, however, squandered

a lot of money with his so-called strategic projects, from the airplane industry to all military industries, including steel.

From the beginning, Suharto never completely followed the economic plan of the Widjojo group and often intervened for the sake of his own vested interests. This was somewhat "bearable" in the early years, but in the end, it became a calamity for the country, when his children grew up and, encouraged by Suharto himself, started to have their own businesses. More than that, and to a certain extent influenced by circumstance and his personal inclination as a military man, he never entertained the idea of political development.

In fact, he followed the so-called "Korean model" of development, which was very popular in the 1960s and 1970s, in which economic development was given singular priority and only after a certain level of economic development had been reached and a sufficiently large middle class had emerged would political development follow. His own personal experience of Indonesia's first experiment with democracy between 1950 to 1957 was not very encouraging and, as a military man, he had always maintained a certain disdain for civilian politicians.

Being not well educated, Suharto had some resentment against intellectuals. In the first decade of his rule, he was still the hero. He was also still willing to listen to the advice of civilians. Once he became very powerful, he never consulted others again. Suharto overcame the last major political challenge in 1978, and it was only in March 1988 during the presidential elections that he was challenged again by the Armed Forces who opposed his vice-presidential candidate. Earlier, during the general elections of 1987, he also got a first inkling about the substantial popular support for the Democratic Party of Indonesia (PDI), the party that used Sukarno as a symbol and elevated his daughter Megawati as a potential leader.

He reacted to these developments by taking over the decision-making of the military leadership and began to seek support from Muslim organizations, especially the newly created ICMI (the Indonesian Association of Muslim Intellectuals) under Habibie. In this way, Suharto wanted to neutralize the political role of TNI (the Armed Forces) and successfully made them his praetorian guard during the last 12 years of his regime by appointing weak personalities to positions of command. He also split them because he no longer trusted them after the experiences of 1988.

These changes also signified the beginning of Suharto's unwillingness to listen to feedback, criticism, or advice, except from a few sycophants around him — particularly Habibie, whom he also used as his technical

advisor to get the lucrative economic projects from the state for his children, family and cronies. He also became short-tempered and thought that he had everything under control. In the meantime, opposition against him grew and became serious, but with an annual GDP growth of 7% to 8%, it was not easy to demote him, because part of the middle class that could oppose him were either co-opted or compromised by the system, or did not have the guts and ability to organize opposition against him. However, opposition continued to grow, and when it became clear that Suharto was unwilling to deal with the financial crisis by curbing the excesses of his children and cronies, the opposition was able to unite and become a real force against him. The political crisis that ensued only showed how isolated the man had become and how foolish he was by staying too long in power and by corrupting the system so brutally and so extensively. In the end, these developments brought him down in 1998, despite his efforts to make the military pliable and the support he received from certain Muslim groups.

Suharto and his family then came under attack and were scrutinized, as well as being under the threat of prosecution for those earlier excesses. They have tried to buy themselves out of these attacks and prosecution. As corruption remains so rampant, the cases against them continue to be postponed. However, the pressures are likely to continue until there is some retribution for the excesses, corruption and abuses of the past. This happened for the first time last July with the sentencing of Tommy, Suharto's youngest and favorite son. He was found guilty of masterminding the killing of a Supreme Court judge, who had sentenced him earlier for corruption. Tommy was sentenced to 15 years' imprisonment.

AN ANALYSIS OF WHAT WENT WRONG

Some analysts think that Suharto obtained his ideas and thoughts from the Kingdom of Mataram that had emerged as the first Muslim kingdom in Central Java some 200 years ago. And that, so they explain, was the reason why he was authoritarian and tried to stay on as president for life. Suharto might have pretended that he understood his prolific quotations of Javanese philosophy and values, but others do not agree with that perception. They refer to the fact that Suharto was from a modest background and was never really formally educated when he was young. His formal education had been more in the military than anywhere else. That is why his knowledge and understanding of Javanese history, philosophy and values were limited. Also, because of the fact that he was raised in his uncle's house where he

was not fully treated as a member of the family, his understanding of Javanese values was limited and based mainly on his own rather unfortunate life experiences. His autobiography clearly shows his misunderstanding or incorrect interpretation of the Javanese culture and values.

It was perhaps his upbringing as a military leader that made him behave as an authoritarian ruler. Since he had become a soldier and officer at an early age and had become president because he was a general in the right place and at the right time, those were the factors that have made the most impact on him.

When he sometimes showed some willingness to compromise, and attempted to soften his rule, those moves were undertaken mainly as a tactical ploy. In the beginning, he showed some flexibility and was willing to revise his policies, for instance, the policies on foreign investment following the Tanaka riot in 1974.

It was after the presidential election of 1978 when Suharto really held all the levers of power in his hands and started to behave as an absolute ruler. That was made possible because of the support from the military. In fact, when he no longer trusted the military's leaders in 1988, he lost his main and loyal support. Only after his removal from the presidency did he realize that all his civilian cronies, the politicians he had cultivated, including Habibie as his vice-president, Akbar Tanjung and Ginandjar Kartasasmita as important ministers, Harmoko as the speaker of parliament, and a bunch of over ten other ministers, had all double-crossed him after playing up to him before the presidential elections in 1998. That happened when his acute vulnerability began to show.

Many in the Muslim groups that he had cultivated, especially ICMI under Habibie, abandoned him when he was under attack and was on the verge of being demoted. In a sense, he became a pathetic, miserable figure. When he became sick, he was still asked to testify and provide accountability of his earlier abuses.

As stated earlier, the strategy that he followed in the early years — the so-called "Korean model of development", in which economic development took precedence with political development following later — was the accepted wisdom at that time. However, he did not know when it became necessary to undertake political development. Now, it is widely acknowledged that political development should, from the beginning, form part of any national development plan along with economic development. Without political development, economic development may face problems, because when hard and tough decisions have to be made in a crisis, none will take place without pressures in the political system. In an authoritarian

system, such pressures, in the form of criticism and feedback, are not present. Hence, big mistakes can be made easily.

This was demonstrated in the Asian financial crisis of 1997. Where there was flexibility in the political systems, where criticism could be given and early warnings could surface, like in the cases of South Korea or Thailand, the crisis could be overcome quickly. The economic and financial crisis in these countries had not been compounded by a political crisis, as in the case of Indonesia. Of course, in the case of Singapore, the crisis was successfully managed even though the political system is rather rigid because there is the rule of law and self-criticism from within the government.

The second mistake by Suharto was the creation of an economic system that was full of KKN (corruption, collusion and nepotism) and lacking in transparency. Corruption had systematically damaged Indonesia's economic system. In retrospect, it is the countries that are still full of KKN, like Indonesia, that have suffered from this deep and long crisis because vested interests prevented them from making the necessary painful adjustments.

The problems actually started with the opening up of the economy, that was not accompanied by policies, rules and institutions to strengthen the working of the economy. This was due to the authoritarian nature of the power structure. The financial sector was liberalized in the late 1980s without adequate preparations for a rules-based economy, functional institutions, and the capacity for oversight by the government. The technocrats thought that without the liberalization of the economy, Suharto's cronyism could not be dismantled. To be sure, without liberalization, the economy could not become competitive, but the consequences of the liberalization were equally dramatic. The weak financial sector made the economy very vulnerable to external shocks, as reflected in the middle of 1997.

As Suharto's power was supreme, he intervened regularly. This did not help in overcoming the crisis. Instead, there was continued loss of confidence because the policies that he tried to implement were not credible as they lacked transparency and consistency. The crisis was triggered by capital flight, but the deepening of the crisis was caused by Suharto's interventions, which were no longer trusted; they lacked credibility because they were full of KKN.

The IMF made its share of mistakes, especially with the closure of 16 private banks in October 1997, without having in place adequate policies to protect the depositors. Again, Suharto made it worse when he intervened on behalf of his children and tried to change the policies. This happened

only because he was so powerful and used to intervening in everything and anything, including the economy.

When Suharto assumed power, he was serious about the plight of the little people, particularly the farmers. This was because he felt close to them, as his father had been in charge of the irrigation system in his village. He gave a lot of attention and subsidies to the farmers. After some time though, they felt the damaging effects of KKN with the introduction of monopolies in a number of agricultural products that were managed by his family and cronies, with the trade in cloves and oranges, for instance.

The urban poor became more marginalized over time. Nevertheless, since the economy continued to grow, they were able to support their livelihood through their participation in the growing informal sector, however inadequate that was. Suharto also damaged the already bad image of the Indonesian Chinese community by making use of a few of his cronies to enrich the family. At the same time, he continued to discriminate against the group.

In fact, his son-in-law, who pretended to be the "crown-prince" or behaved like one, tried very hard to put the blame for the crisis on the Indonesian Chinese. At the very least, it could be said that he allowed the riots against the Indonesian Chinese in Jakarta in May 1998 to happen, as he and his cronies were in charge of the security of Jakarta and did not do anything during the few days of rioting to protect them. Due to his earlier rhetoric against the Indonesian Chinese, he could have been implicated in the riot, although no investigation has been undertaken. The truth may not be known for a long time, because the government has been too weak to undertake the investigation.

In the end, Suharto's KKN was responsible for the growing discrepancies between the rich and the poor. His neglect of social justice has definitely led to his downfall. His two worst legacies were the culture of corruption which he introduced in every sector of life and his unwillingness to prepare for political succession.

Corruption is rampant today in the bureaucracy, but perhaps it is more so among politicians and parliamentarians who have become open to bribes. The three presidents that have replaced Suharto are all weak, in part because they have been ill-prepared for the job. The country suffers greatly from this big deficit in leadership and has not found a potentially strong and capable but democratic leader who can undertake the necessary reforms and bring stability to the nation.

The two basic lessons to be learned from the Suharto era are: (1) the need for the economy to be corrected from time to time, especially after

the growth of the lazy 20 years; rules and institutions need to be created expediently to overcome problems caused by the dramatic economic changes; and (2) the importance of introducing political development in tandem with economic development, in order to have the flexibility necessary for dealing with drastic changes and overcoming crises.

This does not mean that there will immediately be a full and mature democracy, as this would take time and the support of a sufficiently large middle-class. The flexibility of the system, however, can be developed through greater transparency of policies and greater accountability of the people in power. This can be achieved through some rules and mechanisms for participatory politics.

The problem of postponing political development to a later stage only creates an opportunity for those in power to postpone it forever, as has happened under Suharto. When change eventually comes, it will come with a vengeance, full of complications and producing a crisis.

One more important aspect of political development is to limit the terms and years of service for every political leader, especially the President of Indonesia. Without limitation, the leadership will overstay its tenure, because an elected official tends to think that he or she is unique and has the natural right to prolong his or her stay. This will have an impact on the establishment of good governance.

Staying too long in power will, at the very least, lead to a stale leadership that is devoid of new ideas and thinking. The chief executive of an organisation generally becomes tired and exhausted after two terms of four to five years. It is dangerous if leaders think that after ten years they know everything best and do not easily accept criticism, advice and feedback. This is the surest way to become authoritarian, especially when they surround themselves with yes-men and sycophants. Whether it is Suharto, Thatcher, or Helmut Kohl, it is the same in the end. While the first was corrupted for power and money, the latter were by ideas and policies.

In all fairness, it should be added that Suharto laid down a foreign policy that was pragmatic and promoted national interest, and that for the first 20 years, this meant economic stability and growth.

He established a solid regional institution, ASEAN, in order to create a stable and peaceful region, conducive to Indonesia's economic development. For that purpose he did not mind putting Indonesia within that regional structure and forfeited adventurism in foreign policy as had happened under Sukarno during the confrontation with Malaysia. In the last 12 years of his regime, he was very active in the Asia Pacific region.

He supported the Asia-Pacific Economic Cooperation (APEC) and the ASEAN Regional Forum (ARF). He became confident in embracing globalization, although there was some vested interest behind that. The problem was that he did not prepare the public for it, nor did he establish the necessary institutions and policies to cope with its impact. He has contributed to regional stability, but in the end forfeited it due to his authoritarian rule and the impact of the Asian financial crisis on Indonesia.

CONCLUDING REMARKS

President Sukarno was known as the father of the republic and had been able to instill a sense of unity among the diverse populace. He, however, neglected the economy and got bogged down in an ideological struggle that he lost and which led to his downfall.

President Suharto, in contrast, was focused on economic development but neglected political development. He damaged his own economic achievements by making the economic crisis much deeper and more complicated than necessary. He thought he knew everything best and his KKN distorted every step he took.

The country has now moved to the other extreme, from authoritarian rule to having a very weak government. It will take some time to achieve a balance. It has also been observed that political crises and transitions take longer to overcome than an economic crisis.

The country is faced with conflicts — at the top, regional, and communal levels — and there is no national leadership to overcome them because Suharto did not leave anyone in charge, and nobody is capable of doing so. Some regions are facing communal conflicts because the national government, the law enforcement agencies and the Armed Forces are weak. No one but Suharto should be blamed for these weaknesses.

Economic reforms have stalled because of populist opposition, vested interests as well as rampant KKN. The government and the courts are too weak and corrupt to push for reforms. In the meantime, 22 percent of the Indonesian people are below the poverty line, double the 11 percent of the population at the start of the crisis in 1997. And most of those 40 million people are out of work or under-employed.

Some improvements have taken place under President Megawati, but not in real terms because the economic fundamentals have not improved. The biggest problem faced by the government relates to its huge domestic debt that resulted from the re-capitalization of the banks.

Some improvements have also occurred in the resolution of regional conflicts. Aceh has resumed negotiations, and the chances of success this time around are better, although the way ahead is still full of tough decisions on both sides. The conflict in Poso (Sulawesi) has been stabilized, and the Malino pact for peace and stability between the Muslims and Christians has been holding, although the presence of the military there is still important.

The peace efforts in Maluku have brought some results, but they are inadequate until Laskar Jihad and some elements of the military and police that have intervened in the conflict are withdrawn from Maluku. The most dangerous may be Papua, because nobody is in charge of implementing the new law on home rule and explaining to the people the benefit to them. Instead, incentives were given to Laskar Jihad to fight the independence movement. Not only is the independence movement (OPM) small, but the surest way to get international intervention is to change the conflict there into a religious one since the locals are mostly Christians. This could be even worse than the East Timor debacle for Indonesia — because the religious element in the conflict is real and dangerous. The regional autonomy that has been implemented, although still messy, could be a model safety valve for potential regional conflicts in the future because it gives a real sense of participation to the regions.

After 9/11, Indonesia's role as the biggest Muslim country is important, especially if a moderate Islam that is open, democratic and developing well provides the framework for the nation. This could become a model for other Muslim countries. After some hesitation, the US now understands this importance and does not push Indonesia to undertake various military operations, although intelligence, police work and money laundering are important areas in which both countries are already co-operating.

The above describes some of the problems resulting from Suharto's authoritarian rule of 32 years. Indonesia will need a decade to overcome them. In this context, the general elections of 2004 provides a critical juncture in which to lay down a stronger basis for reforms and regain some balance after so many conflicts. The Indonesian elite understands this and its members are trying very hard to establish a majority coalition that can push through with real reforms and help to secure the democratization process.

The Wahid Presidency in Context: Regime Change, Inflated Expectations, Islam and the Promise of Democracy

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In October 1999, Abdurrahman Wahid took charge of a nation in crisis. Less than two years later, the ship of state was wrecked by storms and struggling to make progress, and Wahid was relieved of his command. Overnight, not incoincidently, the storms subsided, and many proclaimed the crisis over — but the crisis was not over. Despite making modest progress on a number of fronts, Indonesia has yet to exit its crisis.

To understand why, we have to look beyond Wahid and remember that the current crisis began five years ago when the Asian financial crisis violently assaulted Indonesia's previously buoyant economy, threw the world's fourth most populous nation into deep depression, and precipitated the end of the Suharto regime. Like some vast unfinished vessel sent prematurely down the slipway, across the bay, and out through the heads onto the open seas, the nation suddenly found itself en route, dispatched on the long voyage to democracy unprepared and unequipped. Few would question the desirability of her hoped-for destination — for there is no decent alternative to democracy that will reliably deliver accountable and equitable government for Indonesia — but whether she can reach it is by no means certain.

To argue that Indonesia was not ready to embark on a transition to democracy risks sounding like a defense of authoritarianism, and to defend the authoritarianism of the Suharto regime would be foolish for a number of reasons, not least because the current crisis, in large measure, represents the unpaid bills of the Suharto regime now coming due. Nevertheless, there is no avoidance of the fact that Indonesia, in terms of its institutions and traditions corroded by rampant rentier-capitalism and its weak, bonsai-ed civil society was ill-prepared to face regime change.

If the full extent of Indonesia's crisis had escaped us up until now, the tragic attack in Bali of 12 October brought home to us the dangerous

uncertainty of life in Indonesia today. As we now know all too well, any nation can become a victim of terrorism, and infiltration by terrorist networks is not, in itself, a sign of national failure. However, in Indonesia's case, the problem of terrorism has been met with disarray, delusion, and denial, and it seems to be linked with deeper, systemic problems.

Speaking a week after the attack in Bali, Indonesian Foreign Minister Hassan Wirajuda suggested that Indonesia's problems might be overcome with better public relations (PR). He has a point, of course, but Indonesia needs a lot more than just good PR.

Addressing a television talk show at around the same time, Indonesian intelligence expert AC Manullang asserted that "[it] is impossible for Indonesians or people of any other Asian country to have such a terrorizing concept. It is not impossible that the bombing architects are people from one of the big powers." Driving his point home, he concluded that "[the] United States is concerned about the possibility of threats to its interests in Indonesia so it wants to prevent radical Islamists from ever coming to power in Indonesia. Therefore, what happened in Bali was not a religious or social war but an intelligence war." Were comments of this sort merely confined to the odd social commentator or instant expert, they would hardly be a matter for grave concern. Unfortunately, however, such views are widespread within the Indonesian elite. Senior government officials, from the level of the vice-president down, have for long suggested that many of Indonesia's deepest problems are not of its own making, but rather arise from international conspiracies or western misunderstanding and misrepresentation.

Writing in *The Age* one week after the 12 October attack in Bali, former president Abdurrahman Wahid observed despondently that:

> … in many aspects of everyday life in Indonesia, it is well known that all manner of illegal activities are carried out by the very authorities who are responsible for upholding the law. Consequently, those authorities have not been able to effectively prevent acts of terrorism. At the same time, the Indonesian political system has so far proved unequal to the task of cleaning up the security apparatus and legal system, in part because too many of its own members have themselves been guilty of illegal and anti-democratic activity.

The words were sober and tinged with melancholy, but the candor was refreshing. Whatever his failings in practical politics, his ability to make a frank and honest appraisal of his beloved nation was always one of Abdurrahman Wahid's great strengths. It may also have been his undoing when he was president from October 1999 to July 2001. Had he been more

willing to "leave well alone" and not take on such an ambitious program of reform, he might well have survived to see out his full five-year term. Instead, this hyperactive president was sacked for incompetence by the People's Consultative Assembly (MPR), and his reformist administration replaced with one much less inclined to challenge the parliament and to push reform of the military.

Up until the 12 October attack, there was a tendency to try and forget the Wahid presidency as an unfortunate aberration on the path to stable government. After all, the Wahid presidency was marked by continual conflict, both social and political, and against this the presidency of Megawati brought blessed relief. Of course, it could be said that Megawati's was a do-nothing government and the sphinx-like president herself an enigma wrapped in a twin-set, but this scarcely seems to matter. By the time Megawati became president, many business leaders were not so much looking for a government that would do something as one that would leave well enough alone and allow business to take care of itself.

For many Indonesians, who have become deeply disillusioned with all arms of government, reform became less of a priority than simple stability. On this, Megawati delivered. Her magic formula was the inverse of the one that Abdurrahman had championed: she set out to make her peace with the ruling elite, both civil and military, and find trouble with no one.

Even when her vice-president, Hamzah Haz — the man who had swung his Islamist United Development Party (PPP) behind Abdurrahman in the 1999 MPR presidential elections on the grounds that a woman president was unacceptable to Muslims — repeatedly defended radical Islamists to the point where he was undermining both her authority and credibility, Megawati refused to say a word against him. Immediately after the 9/11 attack, Megawati visited President Bush in Washington and voiced her sympathy for America. Meanwhile, back in Jakarta, Hamzah Haz intoned that he hoped the attack would "atone for the sins of America". In the year that followed, it seemed that he seldom missed an opportunity to speak up for hard-line Islamist leaders. When, for example, Ja'af Umar Talib, leader of the notorious Islamist militia Laskar Jihad — responsible for many hundreds of deaths in Ambon, North Maluku and Central Sulawesi — was arrested earlier this year, Hamzah Haz visited him in jail. Similarly, when the heat began to be turned up on Abu Bakar Ba'asyir, spiritual leader of the shadowy Jemaah Islamiyah network and self-confessed admirer of Al Qaeda and its leader Osama bin Laden, Hamzah Haz invited him home for dinner. Throughout 2002, Abu Bakar Ba'asyir made it clear that he taught his students the importance of militant Jihad activities, but denied

that he was responsible for the actions of his students. "I am just a craftsman, a maker of knives," he protested, "what somebody chooses to do with a knife that I make is not my responsibility." When it was suggested that Abu Bakar Ba'asyir was inciting violence, Hamzah Haz stepped forward and declared: "Those who want to arrest Abu Bakar Ba'asyir will have me to deal with".

Megawati, afraid of Hamzah Haz and his fellow Islamists turning on her in parliament as they had turned with Abdurrahman, said and did little against them. Even after the Bali attack, she has shown little willingness to confront radical Islamists such as Abu Bakar Ba'asyir publicly. Against this, then, it is refreshing to read Abdurrahman writing in Melbourne's *The Saturday Age* one week after the 12 October attack that:

> … when terrorists are received at the presidential palace as if they were heroes, is it any wonder that members of the security apparatus feel afraid to confront them? Does this not represent a serious affront to the principles of justice in our society?

Clearly, Abdurrahman is very different from Megawati. His candor is as refreshing as her silence is frustrating. His sincere commitment to democracy, human rights and reform is, I would argue, having watched him closely for many years, undoubted and unwavering, but it has to be said he failed to appreciate the limitations of his scarce political capital. Were he truly a majority leader with clear control of Parliament, his outspoken style would not have been the liability that it was.

So, from the point of real politics and survival, Megawati has arguably steered the more sensible course. Or so it seemed. Up until 12 October, it appeared not only likely that Megawati would survive as president until the next general elections in 2004, but that, under the new system of direct presidential elections, she might even win the presidency for another term. Now nothing is certain, and Indonesia's crisis, which had never really gone away, is once again taking on a confrontational political dimension.

If we are to make any sort of sensible appraisal of where Indonesia might go now, it is important that we first understand where it has come from. Understanding just what it was that happened during the Wahid presidency is now more important than ever. It was in the Wahid presidency that the dynamics of regime-changing were laid bare. Intra-elite rivalries, communal politics, the struggle for the military to regain dominance, and the contested roles of Islam in public life all came to a head during the tumultuous 22 months that Abdurrahman Wahid was in office. Consequently, it is worth taking a little time to revisit this period, and the circumstances that thrust this unlikely leader into office, if we are to understand the undercurrents

of Indonesian politics and the true dimensions and character of Indonesia's ongoing crisis.

When the Thai baht dramatically devalued in July 1997, few analysts could see what was in store for Indonesia. Many who would now freely admit that they should have known better were so enamored of the "emerging tiger" economy of Suharto's Indonesia that they failed to anticipate the impending disaster. By the end of the year, however, the rupiah had collapsed just like the baht before it, and it was clear that, like the Thai economy, the Indonesian economy too had been excessively over-geared and dangerously vulnerable to any crisis of confidence. To be fair, had the IMF not intervened in the inept and insensitive manner that it did, the crisis might well not have become so severe, and President Suharto might even have survived. In the end though, in late 1997 and early 1998, Suharto did more damage to his credibility than anything that the IMF could have achieved. Deluded and playing a losing double-game with the IMF, Suharto was in deep trouble by March 1998 when he swore in a new cabinet transparently composed of his cronies.

The death-blow to the regime was probably dealt by Suharto's son-in-law Prabowo Subianto. A so-called "green", or Islamist, general, Prabowo appears to have brought to the national capital and Java the sort of military dirty-tricks tactics that he and others had used in East Timor, resulting in two days of anarchy in mid-May as ethnic Chinese shopkeepers were attacked, homes and businesses razed, and department stores looted. More than 1,000 people died, many of them burnt to death as shops and department stores were torched by mysterious agents whilst the military refused to take to the streets. Perhaps Prabowo was trying to strengthen the position of both the military and his father-in-law. Perhaps he was a pawn in a larger game. Whatever the case, as Suharto flew back into Jakarta from a visit to Egypt, he was confronted with the sorry spectacle of a city dotted with plumes of thick black smoke. Days later his cabinet resigned en masse. When he could find no one willing to join a new "emergency" cabinet, he was forced to step aside and allow his eccentric vice-president, Dr. B. J. Habibie to become interim president.

To his lasting credit, Habibie surprised most of his critics. He stood back as dozens of new political parties were formed and agreed to work towards the holding of free and fair elections the following year. At the same time, he allowed the media greater freedom than it had enjoyed in decades and did relatively little to stifle public debate. His interim administration also drafted, and passed, ambitious plans for decentralising the republic and giving greater autonomy to the provinces. Most surprising

of all, his administration responded to suggestions from Australia that the East Timorese should be allowed an act of self-determination by moving with completely unexpected haste to allow a referendum to be conducted in August 1999.

In many respects, of course, the results of this were tragic, for Habibie — long despised by the military for his technocratic intervention into defense equipment purchases — was shown completely incapable of controlling the vengeful military and their militia, both before and after the vote. Equally, however, there is little doubt that Habibie's intentions were good. Suharto had controlled the military for three decades through ruthlessness and brilliantly Machiavellian manipulation. The military was determined to see that no president would ever again have that degree of control over their internal affairs, least of all a civilian president.

Habibie's greatest achievement as president was the successful staging of the June elections of 1999. There had been nothing even remotely comparable since 1955. Predictably, the three "established" parties did best in a confusing of line-up of 48 parties. Megawati's Indonesian Democratic Party of Struggle (PDI-P) — built on the foundations of PDI, the party she had led until she had the political good fortune to be rudely ousted by Suharto in 1996 — proved a lightening rod for popular sentiment and gained more than 33 percent of the vote. Habibie's Golkar predictably suffered a massive erosion of its Suharto-era vote, but still achieved a credible 22 percent of the vote. Fourth, with more than 10 percent of the vote, was Hamzah Haz's PPP, long the token Islamic opposition party and, therefore, the beneficiary of decades of habitual support. Narrowly ahead of PPP was Abdurrahman Wahid's National Awakening Party (PKB) with over 12 percent. A disappointed Amien Rais, leading the National Mandate Party (PAN) had to make do with 7 percent. Whilst both PKB and PAN were deliberately styled as non-Islamist parties, i.e. they developed non-exclusive platforms focused on reform, not religion, Amien had expected PAN to pick up the majority of votes from Muhammadiyah, the 28 million strong largely moderate, modernist Muslim mass organization that he had previously led, just as Abdurrahman's PKB had picked up much of the vote from the 30 to 40 million strong traditionalist organization Nahdlatul Ulama (NU). It would appear that much of both the NU and the Muhammadiyah vote also went to PPP, with many in Muhammadiyah also voting for Golkar. Those with more hard-line, or idealistic, inclinations probably voted for either the Crescent Star and Moon Party (PBB) of Yusril Izha Mahendra, which only achieved 2 percent of the vote or the Justice Party, which achieved more than 1 percent.

Based on these results, Habibie should have had a good chance at winning the vote for the presidency in the MPR electoral college. After all, most of those occupying the 200 unelected positions that are added to the 500-member parliament to form the MPR could have been expected to vote with Golkar, as could too, with a little work, PPP, PBB, PK and the smaller Islamist parties. This would have left Abdurrahman's PKB, with its tolerant, mystical, traditional *santri* (observant) Muslim rural constituency, and Megawati's nationalist PDI-P with its support base of working class, mystical Javanese and other *abangan* (non-observant) Muslims, along with Amien Rais's PAN.

Back in the "stable" days of the Suharto regime, it was said that if anyone told you that they understood Indonesian politics you could be sure that they did not know the first thing about Indonesia. Since then things have gotten even more complicated.

At the eleventh hour, Habibie — damaged by allegations of state funds being used illegally to bankroll Golkar's election campaign and by the "loss" of East Timor — was rolled by his own party. Golkar chairman Akbar Tandjung led his "White Golkar" faction to vote down a vital end-of-term accountability speech. Habibie withdrew himself from the race.

Meanwhile, the "common front" between Abdurrahman, Megawati, and Amien had been traveling badly. Ironically, Abdurrahman and Amien had, for a time, managed to bury their differences, but Megawati was disinclined to talk to anyone and adamant about refusing to make any deals or concessions — after all, she felt, it was her party that had "won" the election. Abdurrahman was furious with Megawati for "refusing to take democracy seriously", and she was furious with him for not treating her with the deference she felt was owed to her.

Judging the presidency to be, for the moment, a poisoned chalice, given the truly parlous state of the economy and recognizing its desperate need rebuild credibility, Golkar was prepared to back a Wahid presidency, as were the Islamist parties who did not much fancy the thought of an *abangan* (non-observant) woman president.

In his first months in office, Abdurrahman was surrounded by the smiling faces of civil and military power-brokers linked to the former regime. "Surely", they reasoned, "he would be sensible." At this point, a few modest compromises would have probably saved the Wahid presidency. To a certain extent he recognized this, but stubbornly refused to contemplate the possibility of failure when he refused to do deals, at least where they affected his core agenda.

As Indonesia's first ever democratically elected president, he believed that Providence had given him a chance to be Indonesia's first ever truly reformist president. Habibie, he reasoned, had been hamstrung in his reforms by his links with the former regime. Abdurrahman was prepared to sever such links and to take the challenge in a heads-on manner. The sentiments were noble, and the intention genuine, but the outcome decidedly quixotic. The dragons he saw were real enough, but without the numbers in parliament, he had little chance of victory when he charged at them. The tragedy is that, had he and Megawati been able to repair their relationship, they might together have enjoyed last success. Were there a strong coalition between PKB and PDI-P, Abdurrahman might have achieved real backing for his reforms in parliament as other parties such as PAN, and perhaps even the police and military representatives came under pressure to support reform. Sadly, even without Megawati's explicit support, Abdurrahman might yet have survived had he worked more strategically. Unfortunately, however, the years of surviving under Suharto whilst leader of NU had trained him to think tactically rather than strategically. Strategic thinking would have led him to give top priority to building a workable coalition, or a least a sympathetic parliamentary block. Instead, every effort at reform only added to the array of enemies that he had to confront.

To be fair to him, and to Habibie and Megawati, the task confronting any Indonesian president with an interest in reform is so formidable as to appear almost impossible. Unlike developed democracies, Indonesia's system of government lacks the most fundamental mechanisms of checks and balances. There is, for example, no effective upper house to check upon parliament. Nor is there any mechanism, such as the appointment of political appointees, for bringing a recalcitrant bureaucracy into line. Whereas a new American president gets to make around 6,000 political appointments, Abdurrahman was struggling to make half a dozen. He was left to steer the world's third largest democracy through the tortuous first stages of a democratic transition with less resources than the prime minister of Fiji.

Left alone, the military and police might have been prepared to return the favor. But Abdurrahman was convinced that reform of the military was essential to achieving meaningful reforms on every other front. He was prepared to treat them with respect and not demonize the entire institution because of the failure of certain individuals, but he would not leave them alone. On 13 February 2000, he sacked Armed Forces Chief General Wiranto on account of his and the military's moral culpability for the killings in East Timor six months earlier. At the end of that week, he was guest of

honor in Jakarta and Surabaya at the first public celebrations in three decades to mark Chinese New Year. The following week, on 29 January, he flew to Dili where he stood at a podium side by side with Xanana Gusmao and apologized to the people of Timor Lorasae, or free East Timor, for the crimes committed against them by the Indonesian military. He then worked hard over the next twelve months to promote more reform-minded officers and limit the power of hardliners within the military.

Military hardliners responded to this "interference" by contributing to the formation and deployment of Laskar Jihad and other radical Islamist militia and generally doing everything within their power, which remained considerable, to discredit and undermine the president.

For a while, it appeared that Abdurrahman's reform of the military, though costly, marked his greatest achievement as president. Unfortunately, by the end of 2001, with a new "military-friendly" administration in place in Jakarta, it was clear that this was no longer true. One year on from then and it is clear that most of Abdurrahman's reforms within the military have been wound back, and the gains reversed. Whilst a tentative peace agreement was achieved in late 2002, it quickly threatened to fail, and in many ways the conflict in Aceh is as bad as it has ever been. Around 2,000 lives are lost each year in Aceh, and there is now a steady build-up of troops and militia in Papua, and very little space is left for talks and negotiation.

It is fair to ask, then, what was really achieved by the Wahid presidency. Perhaps the best response is to say that President Wahid showed Indonesians, and the world, what is possible and raised awareness about what democracy should mean. Perhaps most importantly, he proved that a committed Muslim scholar and leader can also be a genuine liberal democrat. A reality never more apparent than in the week when he was sacked, he left the palace peacefully and without any violence from his millions of heartbroken supporters.

Valiant experiment shows that it is the Wahid presidency that has been consigned to the dustbin of history. What remains with us is a multi-dimensional crisis and a difficult and uncertain transition to democracy. It is by no means certain that Indonesia will successfully complete its difficult voyage, its transition to democracy. The Philippines did, but fifteen years of it, too, remains crisis-ridden and messy; and the jury is still out on Russia, though what is clear is that Vladimir Putin is no bleeding-heart liberal democrat.

Pakistan, however, has not completed a transition to democracy and is now, in many respects, a "failed state". In this large Muslim nation,

comprised overwhelmingly of moderate Muslims, a combination of cold-war geopolitics, a stagnant economy, and a desperate military not afraid of playing with radical sectarianism, a small minority of radical Islamists now sets the agenda for much of the country. As we now know, the *madrasah*, or religious schools of western Pakistan, have become factories for suicide-bombers and terrorists. The military has unleashed forces that it can no longer control, both in society at large and within its midst.

Like him or not, it would be fair to say that President Wahid was a "conviction politician," that is to say, he was driven by ideas and convictions. He may have been overly romantic, even naïve, but he was certainly not without passion. The failure of the Wahid presidency reads like a Shakespearean tragedy. Human folly and weakness were written large, but so, too, was all that is great and noble about humanity. The tragedy of the Wahid presidency is that he knew that Providence had handed him a rare chance to transform Indonesia, to lift the nation to a new level, and yet he failed to build the bridge that he dreamed of crossing and instead, in overreaching and assailed from all sides, fell from grace, taking the dreams of reform and transformation with him. Following the Wahid Presidency, conviction politics has been notable by its absence. It is not that President Megawati and the members of her administration do not have their convictions, but we would be hard-pressed to call any of them "conviction politicians." In 2002, politics seemed to be all about survival, stability, and the status quo.

In many respects, this is undoubtedly sensible, but it is hardly passionate and does little to provide real leadership. Where have the grand dreams gone — the utopian imaginings of a better place, the yearning for justice, reform and transformation? Where should we look for "conviction politics", for political romanticism? Not in the mainstream parties, it would seem. This is not to say that there are not some within the ruling parties, amidst the young especially, for whom idealism is dead. But their voices hardly dominate at the moment. To find conviction politics in Indonesia today, we need to look at the Islamist parties. After all, where but in the parties that define themselves in terms of religious conviction should we find conviction politics? Consequently, it is in the small, sharply-focused, Islamist parties of Partai Keadilan and Partai Bulan Bintang that conviction politics is most to be found. Islamism is, after all, all about conviction, about a passion to transform society.

By "Islamism", a term that in the last five years has overtaken "fundamentalism" when talking about radical Islamic politics, what is generally meant is the vision and project of transforming society, politically,

legislatively, legally, and constitutionally, to make it "more Islamic" — not simply in the broad diffuse sense of values and ideals, but in the narrow, concrete, practical sense of legislation and law. Islamist politics calls for the application of *Syari'ah* and constitutional recognition of the supremacy of Islam in the life of the nation. Islamism is about breaking down the division between the church and the state. This is not to discount the importance to the Islamist vision of such general notions as "social justice" and "decency", for without understanding these, we cannot hope to understand Islamist politics. However, these notions are also shared by democratic pluralist parties with an Islamic base, such as PKB and PAN. What distinguishes the Islamist parties is the seductively elegant simplicity of their vision. In a complex, disappointing, frightening world swathed in swirling, confusing, threatening shades of grey, theirs is a simple black-and-white vision of reality — here is Islam, here is the state, join them together and you have the perfect world that God wants for all of us, before which the gossamer complexities of ethics, development theory, and geopolitics are dissipated like the morning fog under the rays of the rising sun.

Wahid's lasting achievement as president, once again, is that he showed what was possible and lifted the public's expectations of democracy. More specifically, he showed what it meant to be a Muslim democrat and pointed to a vision of Islam confident in itself and comfortable with modernity. He pointed to an understanding of Islamic politics that seeks not to subvert and confront liberal democracy, but to extend it. Sadly, the demise of his presidency also saw the political defeat of this liberal, progressive understanding of Islam. Indeed, it could be said that this represents the most tragic aspect of his political failure, for it now seems certain that, politically and socially, the strident voices of radical Islamism will dominate in the coming years. So in this, too, the Wahid presidency appears to have started with one step forward but ended with two steps backward as hard-won reforms were pushed back. Taking a longer view of things, however, one would suggest a more positive reading. Radical Islamism may dominate for a time, but in the long run, inspired by Wahid's vision, a younger generation of Islamic intellectuals, activists, and political players will also have their day. Lasting reformist achievement is, of course, preferable to lasting reformist example, but all the same, the power of example should not be lightly dismissed.

Military and Politics in Post-Suharto Indonesia

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The collapse of the military-backed New Order regime led by General (rtd.) Suharto in May 1998 and the coming of *reformasi* (reform), marked a significant change in Indonesia's domestic politics. After more than three decades of authoritarian rule, Indonesia was once again presented with an opportunity to move into a period of transition towards democracy and reinstate civilian rule. More significantly, the event also brought about the opportunity for pro-democracy forces in Indonesia to bring an end to the military's dominant role in the country's domestic politics. For the first time since 1957, the primacy and legitimacy of Indonesia's military (TNI) as a defense force that has legislative power — justified and legalised by the dual function (*dwi fungsi*) doctrine — was seriously contested and challenged. Indeed, with the downfall of President Suharto, the TNI soon found itself under heavy criticism and pressure to withdraw from politics.

Responding to such pressure, the TNI had no choice but to declare its intention to undertake an internal reform (*reformasi internal*) and adjust its role in accordance to public demands. For example, in October 1998 the military issued a reform plan called "new paradigm" (*Paradigma Baru*) detailing how it might reform itself. It was declared that the military would redefine (*redefinisi*), reposition (*reposisi*) and re-actualize (*reaktualisasi*) itself within a new democratic Indonesia. In April 1999, the military changed its name from Indonesia's Armed Forces (Angkatan Bersenjata Republik Indonesia or ABRI) to Indonesia's Defence Force (Tentara Nasional Indonesia or TNI) and separated the Police from the Force. More importantly, the military also accepted the decision of the People's Consultative Assembly (MPR) to reduce, and later relinquish, seats reserved for the military in the House of Representatives (DPR). It also declared that the military would no longer play a political role and concentrate only on its defence function. When these measures were first introduced, many expected that the military — once the most powerful supporter of

authoritarianism under the New Order regime — would finally begin to give in to pressure from democratic forces to withdraw from the political arena.

Despite such encouraging signs, however, it is too early to conclude that the military has ceased to be a significant force in Indonesia's internal politics. It has been noted that "despite its attempts at reform, the Indonesian military continues to be politically omnipresent and still wields significant political clout within the country."[1] In other words, the reform of the Indonesian military is still an ongoing process. This process, which takes place within the context of tremendous economic, political and security problems facing the country, has been slow and uncertain. More than four years after the fall of the New Order, the agenda for military reform in Indonesia is still far from complete. Indeed, the challenge of taking the military out of politics and keeping it under complete civilian control remains a formidable one. Moreover, that challenge has to be addressed by Indonesia within a difficult democratic transition context. This chapter examines the political role of Indonesia's military during the current democratic transition and explores the prospects for democratic reform.

MILITARY AND POLITICS BEFORE *REFORMASI*[2]

The military's involvement in Indonesia's domestic politics did not begin with the inception of Suharto's New Order in 1966. It had started since the country's declaration of independence in August 1945 and, in fact, the seeds for military's engagement in politics had been planted even before the Republic of Indonesia came into existence. Indeed, the military itself strongly and persistently claimed that the TNI was not only born together with the birth of Indonesia, but it also participated in creating the Republic. In this context, its central role in defending the country and managing state affairs is seen not only as a sacred duty but also as a manifestation of historical entitlement. In other words, the Indonesian military has from the

1 Terrence Lee, "The Nature and Future of Civil-Military Relations in Indonesia," *Asian Survey*, vol. XL, No. 4 (July/August 2000), p. 701.

2 The discussion in this section is taken from Rizal Sukma, "Civil-Military Relations in Post-Authoritarian Indonesia," paper prepared for Civil-Military Relations Project commissioned by the Institute for Strategic and Development Studies (ISDS), the Philippines.

outset viewed its role in the new republic as "the shareholders" rather than "the executive agents."[3]

The military's sense for political entitlement grew stronger when the parliamentarian democracy system, opted for by the founders of the republic since 1950, failed to create stable civilian governments. The fluidity of a civilian political structure, manifested in successive coalition governments, always led to a constant struggle between government and opposition in parliament. In such circumstances, the divided military, especially the army, soon found itself enmeshed with the political struggle between government and opposition in parliament as each group sought allies. Therefore, it is not surprising that many army leaders regarded civilian attempts to politicize internal army divisions as an act of interference in its internal affairs. As resentment against civilian governments grew stronger, the army found it difficult to isolate itself from politics. The first major political crisis took place on 17 October 1952 when a group of army officers organized a large civilian demonstration in Jakarta and demanded President Sukarno to dissolve the parliament. It is likely that the officers thought that the move could be justified by what they perceived as the incompetence of civilian governments in governing the country.

The army's first attempt to influence the political course, however, ended with a dismal failure when President Sukarno rejected its demands. Instead of dissolving the parliament, President Sukarno dismissed the army chief of staff, Colonel Abdul Haris Nasution. The army, however, managed to consolidate and settle its internal differences leading to the reappointment of Nasution in October 1955 to the chief-of-staff post. The military's role and position within the society, and especially *vis-à-vis* the government, strengthened significantly when it succeeded in crushing a number of regional rebellions, especially in Sumatra and Sulawesi. Indeed, it was after this success that the army began to expand its non-military role into political, administrative, and economic functions.

The second opportunity for the military to assert its political significance further came in the mid-1950s when President Sukarno himself began to cast doubts over the parliamentary system and the political parties. At this time, as his disenchantment with the multi-party system grew stronger, President Sukarno spoke of the need to "bury" political parties. Such

3 Guy Pauker, "The Role of the Military in Indonesia," in John Johnston, ed., *The Role of the Military in Underdeveloped Countries* (Princeton: Princeton University Press, 1962), p. 207.

disillusionment was widely shared within the military leadership, especially by General Nasution. Following the collapse of the parliamentary system in 1957, General Nasution provided a legal basis for the army's continued political role by formulating a doctrine called *jalan tengah* (the middle way) which later became known as *dwi fungsi* (dual function). According to Nasution, Indonesia's military was neither "an instrument of the government" nor a force that monopolized state power. Rather, the military was an unalienable part of the people, equal to other social forces, obliged to give content to the country's independence, and entitled to participate actively in its national development process.

Therefore, when President Sukarno dissolved the Constituent Assembly and reinstalled the presidential system in 1959, the move was enthusiastically endorsed by the military, paving the way for the introduction of Guided Democracy. The military leadership — especially General Nasution — clearly saw in the Guided Democracy an opportunity for the army to put his *jalan tengah* into practice. Within this system, the army immediately served as one of the central players together with President Sukarno and the Indonesian Communist Party (PKI). Indeed, it has been noted that "the implementation of Guided Democracy represented a convergence of interests between President Sukarno and the leadership of ABRI."[4]

The army's growing political role during the period of Guided Democracy, however, was not totally unchallenged. In a balance-of-power game played skilfully by President Sukarno, ABRI found itself under heavy and constant pressure from the PKI. Aware of ABRI's political significance, President Sukarno often used the PKI to limit ABRI's space for manoeuvring, a role embraced enthusiastically by the PKI with the object of undermining ABRI's chance to monopolize power after Sukarno's departure from power. The balance, however, tipped towards ABRI when events in September-October 1965 provided an opportunity for the military to crush the PKI. In an unexplained situation on the morning of 1 October, the PKI soon found itself in a critical position when a group of army dissidents, with participation of elements of communist youth, tried to stage a coup and killed six top army leaders in the process.

4 J. Soedjati Djiwandono, "Civil-Military Relations in Indonesia: The Case of ABRI's Dual Functions," in David R. Mares, ed., *Civil-Military Relations: Building Democracy and Regional Security in Latin America, Southern Asia, and Central Europe* (Boulder, Col.,: Westview Press, 1998), p. 49.

The army, under the leadership of Commander of Army Strategic Reserve (KOSTRAD) Major-General Suharto, managed to put down the coup attempt and quickly blamed it on the PKI leadership. An outburst of anti-Communist fury erupted and carnage against members of the PKI, suspected or real, soon took place on an unprecedented scale. With active involvement of significant segments of the society in the program, the PKI — once the third largest communist party in the world — was destroyed and annihilated in a few weeks. After the success in crushing and eliminating the PKI, the military — in a coalition with civilian political forces — removed President Sukarno from power in 1966. The road towards an unchallenged political ascendancy for the military soon became wide open with the initiation of the New Order government led by General Suharto.

Under the New Order, the military immediately moved to consolidate its newly acquired power by strengthening its legitimacy as a power base through the reaffirmation of the *dwi fungsi* doctrine; reducing the role and influence of political parties; creating its own civilian political vehicle through which the military's aspirations could be legitimately channelled (the Golkar); expanding its presence in government at national and regional levels; and de-politicizing the society. What emerged as a result was a unique feature of the New Order political system characterised by a blend of military and civilian rule, in which the former had an overriding say in almost all state affairs. Political participation from civilian politicians was permitted as long as they were supportive of the government's position and policies. As one leading architect of the New Order, General Maraden Pangabean, remarked: "As a political force, at the present time ABRI is leading and commanding."

ABRI's motivation in dominating state power was obviously not confined to political interests. As its control over state power was now virtually unchallenged, ABRI soon expanded its corporate interests into business. In fact, ABRI's interest in business can be traced back to the Revolution Era when many army and militia units had to fend for themselves. In the early 1950s, faced with the lack of a defense budget, regional military commanders were forced to find non-budgetary sources to finance their troops and operational costs, often with the help of Indonesian businessmen of Chinese descent. General Suharto himself was known to have been involved in such practices during his tenure as a regional military commander in Central Java back in the 1950s. Under the New Order, ABRI's involvement in business expanded rapidly through a vast number of companies, many under the disguise of *yayasan* (foundations). Each service had its own *yayasan*, such as *Kartika Eka Paksi* for the Army,

Yayasan Sosial Bhumyamca for the Navy, and *Yayasan Angkatan Udara Adi Upaya* for the Air Force.

ABRI's primacy in politics and its economic interests were sustained through a combination of rational economic development on the one hand and skilful but ruthless exercise of power for the maintenance of order on the other. Within such a system, President Suharto and his military-backed New Order government employed a calculated display of reward and punishment as a way to ensure acquiescence and loyalty, and deter defiance and challenge. What emerged from this combination of development and order, and of reward and punishment, was a strong authoritarian state with an impressive record of economic growth that lasted for more than three decades until the outbreak of the Asian financial crisis of 1997. Opposition was regarded as unconstitutional and any challenge to the New Order government was dealt with sternly. In other words, the military ensured that the cost of defiance would exceed the benefits of loyalty.

However, ABRI's position as the most powerful institution changed as the influence and personal power of President Suharto grew stronger and the generation gap between him and the successive military leadership widened. During the first two decades of the New Order, it was difficult to draw a clear distinction between Suharto and ABRI. Suharto's power was derived mainly from ABRI's support, and he was *a primus inter pares* within the core of ABRI leadership. However, since the early 1980s, Suharto's position had gradually become more powerful and, by the mid-1980s, "President Suharto was then very clearly the pre-eminent figure on the stage, having edged aside all possible challengers to his authority, from within the Armed Forces or elsewhere."[5]

At the same time, the decline of ABRI's influence and power *vis-à-vis* Suharto was becoming more evident. Suharto managed to ensure that credit for successfully improving the national economy went largely to himself instead of to ABRI as an institution. After being the backbone of the New Order government for more than 20 years, ABRI was faced with the fact that Suharto had himself become the supreme political force in Indonesia while other forces only constituted major players in a game where no one but Suharto exercised complete control over the rules. ABRI's influence in determining the shape of state policies was seriously constrained by that of Suharto himself. In this context, ABRI realized that its politics was

5 Jamie Mackie, "Indonesian Political Developments, 1987–1988," in Hal Hill and Jamie Mackie, eds., *Indonesia Assessment 1988* (Canberra: Australian National University, 1989), p. 18.

extremely dependent on Suharto. Therefore, since the end of the 1980s, ABRI was obliged to play a role as "the guardian of the palace" with the object of ensuring the survival of the New Order regime and keeping President Suharto in power. Such a role brought ABRI in direct collision with the public when Suharto was finally forced to step down by the student-led reform movement (*gerakan reformasi*) in May 1998, which is also known as the May Riots.

AGENDA FOR MILITARY REFORM: CHANGES AFTER SUHARTO

Pressure on the military has been motivated primarily by the excesses of military power over three decades of Suharto's rule during which the military had played the role of the strongest supporter of the New Order. As cases of military abuse of power and violations of human rights were publicly exposed, the public came to the conclusion that the military should be subject to civilian control. Consequently, the military's role in politics was seen as an obstruction to democracy in Indonesia and therefore, should be relinquished. Civilian and social forces maintained that the military should now focus more on developing its professionalism in carrying out its external defense function and that the task of maintaining domestic order should be given over to the police. However, at the beginning of the *reformasi* era, no one outside the military seemed to know how to bring this about. While pro-reform civilian forces were still outside the governing parameter, the new government was not prepared to challenge the military directly.

Indeed, under Suharto's immediate successor, President B. J. Habibie, the reform of the military was very much left to the ABRI leadership itself. Under General Wiranto (both as Minister of Defense and ABRI Commander-in-Chief), ABRI soon embarked upon a series of initiatives aimed at restoring its image by issuing an internal guideline for reform called *Paradigma Baru ABRI* or The New Paradigm of the Indonesian Armed Forces. It envisaged that ABRI's *reformasi internal* would be based on four principles: (1) it is not always necessary for the military to be at the forefront of politics; (2) the military no longer seeks to "occupy" positions in the state but would only "influence" government decisions; (3) the method to influence the political process would be changed from "directly" to "indirectly"; and (4) the military would act upon the principle of "role-sharing" (partnership in making decisions on important state and governmental affairs) with other national authorities. Through the introduction of the New Paradigm, the military leadership clearly expected

that ABRI's tarnished image would soon be restored and the institution's place in a new Indonesia secured.

In operational terms, the *reformasi internal* is translated into a number of programs:

(1) the separation of the police and the military;
(2) the liquidation of socio-political posts within the military at national and regional levels;
(3) the replacement of the office of Social and Political Affairs (Kassospol) with Territorial Affairs (Kaster);
(4) the liquidation of the posts responsible for assigning active members of the military to undertake civilian positions;
(5) the requirement for military officers to choose between military or civilian careers, either through early retirement or tour of duty;
(6) the reduction of the number of military representatives in the national and local parliaments;
(7) the termination of ABRI's involvement in day-to-day politics;
(8) the severance of organizational ties with Golkar and other political parties;
(9) the exercise of neutrality in elections;
(10) changing the relationship between TNI and the TNI big family;
(11) revision of the TNI doctrines according to the spirit of reform and the role of TNI in the 21st century; and
(12) changing the name of ABRI into TNI.

The other important aspect of the New Paradigm was the public acknowledgement by the ABRI leadership of its misdeeds and wrongdoings in the past. For example, General Wiranto apologized publicly for the abuses committed by what he called "individual soldiers" in Aceh. Other high-ranking military officers, including the Army chief-of-staff, also expressed similar apologies. Such acknowledgement of past mistakes and apologies, which was unimaginable under Suharto, clearly indicated that the military was indeed on the defensive. In such circumstances, it is not surprising that the primary objective of *reformasi internal* was to display the military's commitment to adjust its role in the post-authoritarian era. It was also meant to convey the message to the public that the TNI was responsive to popular demands and the people's aspirations. The most significant element of this declaratory display of commitment to reform was expressed in the willingness of the military to relinquish its socio-political role through the abandonment of the dual-function doctrine.

At a practical level, some of the promises for change have indeed been fulfilled within the first two years of the democratic transition. For example, the military has taken a number of measures to reduce its political role, among others, by (1) liquidating socio-political offices within its organization; (2) introducing limited doctrinal and curriculum changes; (3) banning its members from taking up civilian jobs while still in service; (4) separating the police from the military; (5) severing its ties with Golkar; (6) exercising a relatively neutral stance in the 1999 general elections; and (7) accepting the reduction of reserved seats for the military both in national and local parliaments. The military, for the first time since 1966, had also accepted the appointment of a civilian as Defense Minister and a non-Army officer as the commander-in-chief. These measures clearly constituted no small achievements in a society that had just departed from authoritarian rule backed by a dominant and entrenched military role in its national politics.

The aforementioned changes reflect the most important changes in the military's reform, namely, the redefinition of TNI functions. As the internal security function is handed over to the police, the role of the military is legally now confined to that of defense. While the decision to separate the police from the military was made by the TNI itself in April 1999, the legal basis for this was provided by MPR Decree (TAP MPR) No. VI and VII/2000. While TAP MPR No. VI/2000 mandates the separation of the police from the military, TAP MPR No. VII/2000 sets to distinguish the functions that the police and the military should perform. The MPR Decree No. VII stipulates that the (internal) security function (*keamanan*) is now assigned to the police, while the military is only responsible for defense (*pertahanan*). The role and functions of the military and the police are then defined further in two new acts: the State Defense Act and the Indonesian National Police Act.

According to the State Defense Act No.2/2002, the TNI is "a defense instrument of the unitary Republic of Indonesia" (Article 10). The Act also stipulates that the military has four main functions: (1) to uphold national sovereignty and maintain the state's territorial integrity; (2) to safeguard the safety of the people and the nation, (3) to undertake no military operations other than war; and (4) to participate actively in international and regional peace-keeping missions. Meanwhile, the National Police Act No. 2/2002 regulates that the police is an instrument of the state responsible for guarding public security and order tasked to protect, guide, and serve the public as well as uphold the law. The Law No. 2/2002 also clearly

stipulates that the police are civilian force responsible for internal security matters.

The character of civil-military relations has also undergone some changes. Both at personal and institutional levels, the military has become more open to inputs from society, especially from civil-society organizations. The case of State Defense Act 2002, for example, is illustrative. When the draft bill was first introduced to the public by the Ministry of Defense in June 2000, it was heavily criticized. Consequently, the civilian Minister of Defense, Mahfud MD, commissioned a new drafting committee tasked with revising the draft. The new drafting committee was composed of academics, representatives of NGOs, and military officers. Before the final draft was submitted to Parliament, it went through a series of public consultations. Indeed, the bill was passed by Parliament with substantial inputs from the public.

Such openness has not been unique at the Ministry of Defense alone. During the process of drafting the Armed Forces bill in 2002, the TNI was also open to some inputs from civil-society groups. While a degree of conservatism remained visible among some military members of the drafting committee, the fact that they were actively seeking non-military inputs to the draft was warmly appreciated. When the draft was submitted to the Ministry of Defense for further revision, a number of civilian experts and NGO activists were also invited as members of the drafting committee at the ministry level. Overall, the trend in the legal aspects of military reform is indeed encouraging. The military recognizes that within a new democratic order, it needs to subject itself to the law. For that reason, it acknowledges that more laws need to be drafted and, to that end, it has made it clear that inputs and support from civilian experts and civil society groups would continue to be sought. Such interactions between community groups and the military clearly serve as a promising start in establishing democratic civil-military relation over the long term.

THE NATURE OF CHANGE: FROM "POWER" TO "INFLUENCE"

While progress in the legal aspects of military reform has been encouraging, the overall political position of the military remains strong. It has been mentioned earlier that the New Paradigm clearly states that in shaping policy outcomes, the military now no longer relies on "power" but on "influence." During the four years since the fall of Suharto, the military position in politics has reflected this. Indeed, there are several areas where problems continue to exist, and attempts to bring the military under civilian control

remain problematic. The TNI remains politically influential, especially in shaping political outcomes and in policy formulation of national security-related issues. To a lesser degree, the TNI has also been able to exercise its independence *vis-à-vis* the president on matters considered internal military affairs, such as promotion within its ranks and the trial of military personnel accused of human rights violations.

In influencing the outcome of a political event, the case of President Wahid's fall is illustrative. President Wahid, during his last bid to maintain power, insisted on issuing an emergency decree and called on the TNI for support. The TNI, however, did not support his controversial move. Instead, it opted out of the power struggle between the president and his opponents. Of course, it is debatable whether this move reflected a genuine, neutral stand. In fact, many believe that the move was a calculated act intended to weaken Wahid's position. The emergency decree, which the military refused to back, soon accelerated the Wahid downfall. Within this context, the TNI seemed to realize that maintaining President Wahid in power would not serve any military interest. Indeed, the military had not been on good terms with President Wahid prior to his downfall and had been disappointed with the Wahid government over many issues.

One such issue has been the disagreement between the president and the military over some matters of national security. Differences between the president and the military leadership emerged with regard to dealing with troubles in a number of regions. The military publicly criticized Wahid's reluctance to impose a state of emergency in such troubled provinces as Aceh and Maluku. While the military preferred to deal with the problem through a security approach, President Wahid was willing to negotiate with the rebels in Aceh. In Papua, President Wahid's conciliatory tone to pro-independence elements in the province also angered many within the TNI. The military, through its spokesperson, did not conceal its opposition to the president. At one point, the military's spokesman was even reported to have stated that the president was not the supreme commander of the Indonesian Armed Forces.

The military also continued to demand a high degree of autonomy in matters it considered internal. The tendency by President Wahid to intervene in the appointments of military officers also served as a source of resentment for some in the military leadership. When he was the president, Wahid stepped in to remove army officers who were resisting his control. He also gave key military positions to officers from the Navy and Air Force, something that never happened during the Suharto years. It is widely believed that the military was not happy with Wahid on the question of the

investigation of key military leaders, including General Wiranto, on TNI's human-rights violations in East Timor.

Instead of defending the military, Wahid repeatedly stated that anyone, including General Wiranto, should be prosecuted if found guilty. The strongest sign of displeasure was made by the Commander of Army Strategic Reserve (KOSTRAD), Lieutenant-General Djadja Suparman, when he publicly warned that "the investigation against some generals will make soldiers angry and act wantonly."[6] Such a warning was then widely seen as a threat by the military to the civilian rule under President Wahid. And indeed, without the support from the TNI, President Wahid failed to defend his presidency when he was removed from power by the MPR in July 2001 and replaced by Vice-President Megawati.

The rise of Megawati to the presidency raised concerns among civil-society groups that she would put a brake on military reform. Many believed that she shared a similar nationalistic outlook and interest with the military. Moreover, she might have learned from Wahid's experience that maintaining good relations with the TNI would give her government a better chance to survive, at least until 2004. Indeed, despite being the victim of an oppressive military-backed New Order regime, President Megawati has not shown any signs of pushing for military reform. Except for a few declaratory intents, her government has not devised any clear blueprint or roadmap for military reform. Moreover, like her predecessors, President Megawati tends to leave how TNI should change to the military itself. After experiencing the turmoil of the Wahid presidency, it is not surprising that the military actually feels more comfortable with the Megawati government.

CONCLUDING REMARKS: PROBLEMS AND PROSPECTS

The overall picture of military reform under President Megawati, however, has been mixed. On the one hand, the military remains committed to staying out of politics — at least in a "practical political" (*politik praktis* or day-to-day politics) sense. The military has, for example, agreed to move the deadline for the abolishment of its seats in the MPR to an earlier date, from 2009 to 2004. It insists, furthermore, that the TNI's role and functions be based on, and "protected" by, the law. For this purpose, the TNI continues to support the legal aspect of military reform through the drafting of a number of defense- and security-related laws. While the substance and

6 *Media Indonesia*, 15 December 1999.

content of such laws may be debatable, the TNI at least continues to recognize the imperative of a legal basis for its role and functions. On the other hand, however, the scope and pace of reform over the last four years have not been satisfactory. There have been some key issues that have not been addressed, and further developments have even created concerns about the uncertain future of military reform.

Three residual problems are in dire need of resolution. The first is the absence of clear and long-term policy guidance from the government — in both planning and programming terms — in reforming the military. The ongoing debate on the future of the territorial command structure (*Koter*), for example, is illustrative. In September 2001, Minister of Defense Matori Abdul Djalil maintained that the Koter system would be gradually abolished. However, in January 2002 when the military indicated that it wanted an expansion of *Koter*, by establishing a new Regional Military Command (*Kodam*) in Aceh, it was also the same minister of defense who was quick in giving his support and approval. This episode clearly demonstrates not only the lack of the government's political direction, expertise and the desire to control the policy agenda, but also the absence of comprehensive and long-term defense planning. This leads to uncertainty regarding who should have the authority over Koter. In fact, as the Koter system constitutes a form of force deployment, the future of this system should be decided by the government. However, the government seems to hold the view that the authority to formulate policy on these issues remains the prerogative of the military itself.

The second problem is the defense budget and the military's involvement in business. This remains unsolved. Critics maintain that the military should not be involved in business because it has unfair advantages. Moreover, the military's involvement in business will surely result in conflict of interest and may also undermine the process of military reform itself. On the other hand, the military faces serious budgetary constraints both for its operations and the welfare of its soldiers. The military has always used this reality to justify its business activities. In the current context, the economic crisis has seriously undermined the government's ability to provide adequate funds for the military. In this regard, the government should find ways which, on the one hand, end the military's involvement in business and, on the other, address military concerns over the defense budget.

The third problem is the lack of discipline within the armed forces. Reports on incidents involving military personnel have been common. The worst incident, for example, took place in October 2002 when more than one hundred TNI members — fully armed — stormed and destroyed a

police station in Binjai City in northern Sumatra and killed at least four policemen. There have also been media reports that rough elements of the military also continue to get involved in illegal activities, such as drug trafficking and smuggling. There has also been the continuation of violations of human rights by soldiers, especially in such conflict areas as Papua and Aceh. The murder of Papuan pro-independence leader Theys Eluay, in which members of the Army Special Forces (Kopassus) are allegedly involved, is only the latest incident.

In conclusion, it is important to note that the slow progress of military reform in Indonesia should not be blamed entirely on the TNI. It is also caused, to a considerable degree, by civilian incompetence and inexperience in defense-related issues. This is reflected in weak civilian institutional and functional control over the military. Civilian political forces, especially political parties, are still facing a number of structural constraints and limitations in playing a strategic role in creating democratic civil-military relations, especially in strengthening civilian control over the military. For example, many political parties and civilian leaders still seek the support of the military when they are in competition among themselves. Even though civilian political forces are now relatively free from military intervention, they have been reluctant to initiate policy measures that might harm military interests. Therefore, until a true multi-party democratic system is established — and civilians acquire sufficient level of knowledge on defense-related matters — the military's role in politics will remain an important factor in Indonesian politics.

Constitutional Reform and the 2004 Election

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THE 1945 CONSTITUTION OF INDONESIA

The original 1945 Constitution of Indonesia is a short document containing only 37 articles. When written in July and August 1945, it was a temporary document. No other nation has since adopted its pattern of state institutions, which was substituted in practice within three months of its promulgation. The 1945 Constitution is, however, a document with strong emotional and enduring significance to most Indonesians; it is a symbol of the struggle for independence from colonialism and a founding pillar of the unitary state of the Republic of Indonesia. In the transition from the New Order since 1998, debates have grappled not only with the 1945 Constitution as a legal text, but also as a national symbol.

The 1945 Constitution created "a state based on law" and a "government based on the constitution as against absolutism". It has three parts: the Preamble containing the statement of basic principles; the Articles of the Constitution accompanied by transitional and additional provisions; and the Elucidation section expanding on the general principles and individual Articles. (Such an Elucidation section is standard Indonesian practice and attached to most legislation.) The Constitution was deliberately flexible and drafted to include only a basic framework.

THE ALL-POWERFUL PEOPLE'S CONSULTATIVE ASSEMBLY (*MAJELIS PERMUSYAWARATAN RAKYAT* OR MPR)

The sovereignty of the people was to be exercised "in full through the MPR". The MPR concept derived from the doctrine of the integral state, which rejected both the principle of separation between the individual and the state and the principle of separation of powers. As drafting committee chair Supomo described it, the philosophy of the MPR is based on "the principles of unity between [the] leaders and [the] people and unity [of] the entire nation".

The MPR was to be established as the highest institution of state and "the manifestation of all the people of Indonesia" to "determine both the Constitution and the Guidelines of State Policy" — the latter institutionalized as the *Garis-Garis Besar Haluan Negara* or GBHN. The MPR was to consist of directly elected legislators, regional representatives, and representatives of functional groups — originally conceived as "cooperatives, labor unions and other collective organizations". This reflected the emphasis on the goal of Indonesian economic independence espoused by many leaders of the independence movement, in particular Sukarno, both as Indonesia's independence leader and as its president.

The MPR was to meet once every five years "to decide the policy of the state to be pursued in the future" and thus to give its mandate to the President. The five high institutions of state, the President, the People's Representative Assembly (*Dewan Perwakilan Rakyat* or DPR), the Supreme Advisory Council, the State Audit Board, and the Supreme Court would submit reports to the MPR at the end of each five-year electoral term.

A "PRESIDENTIAL SYSTEM"?

The President was to be "the Chief Executive of the State" and "the true leader of the state" who would "hold the power of government in accordance with the Constitution". However, the Elucidation section stated clearly that "the powers of the Head of State are not unlimited". The President was "not in an equal position to" and "subordinate and accountable to" the MPR. The President was, indeed, "the mandatory of the MPR" and "the highest administrator of state below the MPR".

Indonesians described this Constitution as presidential. While the Republic of Indonesia has always had a president, the conventional definition of a presidential system requires considerably more. It has three specific characteristics: a one-person rather than collegiate executive, an executive directly elected by the voters, and a fixed term chief executive not subject to legislative confidence. The 1945 Constitution is not conventionally presidential.

No parallel can be found in conventional presidential systems to the indirect election of the President by the MPR. The President was not elected by the voters on a policy manifesto, and the MPR was certainly not merely an electoral college. The MPR set the GBHN without presidential involvement. The President was specifically tasked with the implementation of policy in line with it.

The MPR had the right, through a special session requested by the DPR, to dismiss the President before the end of his/her term in the event of a clear violation of national policy, which included not only the 1945 Constitution itself but also the contents of the GBHN. While the procedures were lengthy and complex, the removal from office of President Abdurrahman Wahid in 2001 showed that they had real teeth. By contrast, in a conventional presidential system, the grounds for impeachment are normally restricted to the breach of the constitution or criminal acts — sometimes with the addition of moral turpitude.

STRUGGLE, DEMOCRACY AND AUTHORITARIANISM

It was a long time before the concepts of the 1945 Constitution were tested under conditions that could be described as democratic or even transitional. While Indonesia was still fighting to realize its independence from the Netherlands, the full set of institutions envisaged in the 1945 Constitution could not be established. In October 1945, institutions of a more parliamentary nature were put in place. Although their consistency with the 1945 Constitution is perhaps debatable, they were generally accepted, and lasted until the Round Table Agreement with the Netherlands in 1949.

The federal constitution of the Round Table settlement was rapidly replaced by the Temporary Constitution of 1950, which established a more parliamentary form of government within the framework of the unitary state. However, the 1950s did not see a consolidation of democratic institutions. President Sukarno on 5 July 1959 reintroduced the 1945 Constitution by decree. From this time onwards, he characterized it as a historic document and a symbol of the basis of the revolution that was not amenable to amendment, addition, or improvement.

President Suharto developed the 1945 Constitution further as an instrument of authoritarian rule with power concentrated in the executive. The MPR met every five years as required, but acted throughout the New Order years as a silent partner which followed Suharto's bidding. Suharto, like Sukarno before him, promoted the 1945 Constitution as a fixed text that was incapable of being amended or improved. Those who articulated the aims of *reformasi* at the time of Suharto's fall in 1998, therefore, included constitutional change as one of their key demands.

During the run-up to the general election of June 1999, political activity concentrated on new electoral and political legislation and on the organization of and preparations for it. The constitutional reform debate

was shelved, and radical student elements rapidly sidelined. While there was a consistent undertow in political discussion of the need for institutional change, most parties fighting the 1999 election reaffirmed their commitment to the symbol of the 1945 Constitution and did not discuss its substance. Substantive change did not fully enter the debate until after the election.

CONSTITUTIONAL REVIEW BEGINS

The MPR General Session following the 1999 election agreed by consensus to a review of the Constitution in the following year. Amendments would be made to the existing 1945 Constitution, rather than adopting an entirely new constitution — reflecting the continuing importance of the 1945 Constitution as a national symbol.

The first priority was a significant transfer of power from the executive to the legislature. The President's "holding of the power to make statutes in agreement with the DPR" was changed to an entitlement "to submit bills to the DPR". The DPR gained "the authority to establish laws" and a joint DPR/Government approval procedure for legislation was created. While Suharto had been re-elected every five years by his controlled MPR, the new MPR inserted the safeguard that the president and vice-president could "be re-elected to the same office for one further term only"'. The First Amendment was agreed immediately by consensus.

At the same time, the MPR decided to introduce Annual Sessions from 2000 onwards. The public discussion of an annual presidential report by the MPR and the consequent policy directions agreed were to create new pressures, moving the balance of power substantially away from the presidency.

An ad hoc committee (*Panitia AdHoc I* or PAH I) was formed to handle the review of the Constitution. It rapidly established ground rules and broad principles, immediately reaffirming support for the existing Preamble, the unitary state, and the presidential system without saying what "the presidential system" meant. There was next to no support for any move to a parliamentary system. The memories of the 1950s had made the concept and phrase politically unacceptable, just as the Round Table Agreement and the 1949 constitution had made the concept and the word "federalism" unacceptable.

PAH I met in public and held consultation and witness hearings in Jakarta and the provinces. PAH I presented a comprehensive report in 2000 that contained alternatives at some 24 points, although inevitably some chapters were well drafted and others less so. Much of its final wording

was the result of carefully crafted and essentially political deals made in the drafting process.

POLITICAL PROBLEMS AND PROCEDURAL DELAYS

The 2000 MPR Annual Session convened in early August in an atmosphere of political tension overshadowed throughout by persistent talk of a confrontation between President Abdurrahman Wahid and the MPR and of possible removal from office proceedings. The eventual showdown, however, only took place later.

While many PAH I members had become familiar with and knowledgeable about the key issues, other MPR members — asked to consider them for the first time — were not yet as ready. Some members clearly perceived the PAH I report as much more wide-ranging and fundamental in scope than they had imagined.

As is common with negotiated agreements, the compromises in the PAH I report would only have held if all parties involved had wished them to do so. Once debate exposed the differences beneath the compromises, they started to unravel. The importance of the issues, the 1945 Constitution as a symbol, and the political strength of the more conservative forces meant that little effort was made within the MPR to force contested issues.

In addition, the apparent all-party backing for some decisions by PAH I evaporated. Some party factions proved better than others at communicating with and convincing the rest of their party. Issues were reopened from the beginning. With the MPR still exploring its newly found freedom of action, the procedural conventions were inadequate to enable the discussion of a significant volume of complex material — whether constitutional amendments or anything else. Only about a third of the tabled amendments were discussed — and they were the easy ones.

The failure even to address most of the agenda divided those — primarily inside the MPR — who accepted that the full amendment process required a step-by-step approach from those — primarily in elite groups outside the MPR — who wanted to reach a new agreement on the concept of the state and a new Constitution based on it. They grew steadily further apart; the MPR's legitimacy to conduct the constitutional debate would henceforth be under steady external attack.

Despite the procedural difficulties, consensus was reached on the major issues of regional government, the DPR, citizenship, national defense and security, and human rights. These formed the core of the Second Amendment.

The DPR would become a fully elected body by the next general election in 2004, without military and police representation. The powers of the DPR were specified: to legislate, to exercise oversight, and to approve the national budget. The Presidential "pocket veto" was abolished: if the DPR and the President jointly agree on a legislation and the President fails to sign it within 30 days, the legislation takes effect regardless.

However, the proposal to formalize in the Constitution the procedures enabling the DPR to request an MPR Special Session to hold the President accountable was dropped. This happened primarily as part of the resolution *pro tem* of the conflict between President Wahid and the legislature and also because this issue needed to be considered later alongside the nature of the presidency itself.

The new human rights chapter proved controversial. Its provisions were substantially drawn from the Universal Declaration on Human Rights (UDHR), including in particular that "the right not to be tried under a law with a retrospective effect [is a] human right that cannot be limited under any circumstances." Human rights and NGO activists attacked this provision as the outcome of a hidden agreement with the military, fundamentally opposed to the interests of *reformasi* and blocking calls for justice for human rights violations during the New Order. Most MPR members appeared taken by surprise that a provision inspired by the UDHR could generate such a reaction.

With these human rights clauses, the MPR — albeit for the most part unconsciously — made its first explicit change to the fundamental thinking of 1945, when proposals to include human rights provisions in the Constitution had been specifically rejected. Sukarno had said that such individual rights detracted from the freedom of the sovereign state, and Supomo had stated that the individual was nothing more than an organic part of the state.

The Heart of the Argument

The central unresolved issues lay in a basket of interconnected questions about the basic structure of state institutions and the future form of the Indonesian state. There were four key points, as follows.

(1) The nature of the sovereignty of the people: Some supported the 1945 concept, with sovereignty being exercised in full through the MPR as the highest state institution. Others believed that "the presidential system" required acceptance of the separation-of-powers principle — and that was a necessary and positive step towards

establishing an effective democratic polity. The legislative, executive and judicial branches would be separately defined, and no highest state institution would exist.

(2) The role, function and composition of the MPR: The separation-of-powers advocates insisted that direct popular sovereignty requires all the representatives of the people to be elected. The MPR would thus be reconstituted solely as a joint session of two constituent houses, the DPR and the *Dewan Perwakilan Daerah* or DPD. However, *realpolitik* dictated possible additions: proposed military and police representation in the MPR until 2009 was formalized in an MPR Decree.

(3) The establishment of a system with two representative chambers and the definition of the powers of the DPD: The DPD would have equal representation from each province; it might or might not be given legislative power on regional issues, but would not have powers in other areas. This would mark another major break from the 1945 concept. The original regional representatives were seen as part of the process of reaching consensus within a unitary MPR: the grant of any legislative powers to the DPD would accept the principle of separate bodies able to reach separate positions on certain issues.

(4) Direct election of the President and Vice-President would give the extra legitimacy of a direct mandate. The relationship between the election manifesto of the successful ticket and the GBHN agreed by the MPR required clarification. Breach of the GBHN by the President was questioned as a valid ground for impeachment. Moreover, the existence of the GBHN itself was questioned. The answers would critically affect the future balance of power between the legislature and executive.

PRESIDENT WAHID'S REMOVAL FROM OFFICE

The aforementioned debate was effectively suspended in 2001 while the Wahid presidential drama was played out. The July Special Session of the MPR removed President Wahid from office, replacing him with Vice-President Megawati. Although challenged, the removal procedure appeared in line with the Constitution, with one exception, that the Special Session was accelerated to open before the requisite two months' notice period expired. These events demonstrated vividly how the relationship between the MPR and the presidency under the 1945 Constitution was changing in the new era of legislative assertiveness.

The Third Amendment: Fundamental Change Enacted

The 2001 MPR Annual Session originally scheduled for early August was delayed until November. The development of "institutional tradition" was illustrated by many MPR members' perception that early August was, in 2001, the "normal" time for the Annual Session — although there had only ever been one previous Annual Session!

The political tension of much of the preceding year had largely dissipated. The little coverage the Annual Session received was deeply unfavorable — particularly when a fistfight on the floor was broadcast live on television. The PAH I leadership had, however, learned the lessons of 2000: negotiating and drafting meetings ran in parallel with commission plenary sessions in order to ensure that all members could be heard while key players tried to thrash out the necessary compromises. Contributions from the floor were held much more strictly to time.

Two key issues emerged: the powers of the proposed DPD and the question of what would happen if no presidential/vice-presidential ticket received an absolute majority in a direct election. The core of the deal proposed in the negotiating meetings was acceptance by PDI-P — the largest party in the MPR — of some legislative power for the DPD in exchange for acceptance by Golkar — the second largest party — of a second-round presidential election in the MPR.

This deal could not be completed by consensus. Other parties were not prepared to accede to the proposed second-round presidential election in the MPR. MPR functional group members started to mobilize against the proposed new-model MPR, from which they were excluded. They gained the support of a number of PDI-P members who opposed the existence and the powers of the proposed new DPD, believing that it would threaten the unitary state and the founding principles of Indonesian nationalism. At one point, the negotiations appeared close to a breakdown as a result of Golkar's unhappiness that PDI-P seemed unable to deliver its own members behind the potential agreement.

When it finally became evident that no full agreement could be reached, a very quick decision was made to enact everything already agreed as the Third Amendment and to use the remaining options as source material for a further year's debate. This decision was immediately confirmed by consensus as a very tired session closed. Its implications had not been appreciated by many MPR members, or by most people outside the MPR. Its result was a fundamental change in the institutions of Indonesia — but almost nobody noticed it happened. The disappointment that a full agreement was not reached obscured the changes that were agreed. In

political circles, and even more in the media and commentary circles, the meaning of the Third Amendment did not sink in until well into 2002.

When reality dawned, the debate was particularly fierce within Megawati's PDI-P. A number of its significant figures sought to reject a Fourth Amendment altogether. They argued for some time that this would lead to a return to the original 1945 Constitution, even though the Third Amendment was specified to take effect immediately. The internal argument was only reduced in volume after Megawati herself chaired a central party meeting.

PAH I drew up the draft Fourth Amendment, still containing alternatives, in April 2002. There was much speculation about a deadlock at the Annual Session, as party leaders and significant figures staked out negotiating positions. The importance of reaching an agreement became clearer in political circles. The following three big issues had to be solved.

The Composition of the MPR

The question remained whether the future MPR should consist only of elected members. The functional group representatives starkly articulated the choice between the 1945 concept of the MPR bringing groups in society together, the importation of the "Western" — specifically US — concept of bicameralism, and the principle that all representatives should be elected.

The Two-Round Presidential Election Question

For much of the year, the second round of the presidential election appeared to be the most difficult issue to resolve. Arguments were raised against the second-round direct election proposal relating, for example, to cost and security implications. Equally, the second-round election by the MPR was questioned on the grounds that the final decision would be taken by a small (and potentially corruptible) group and also because of the legitimacy questions that would arise if the MPR overturned a first-round popular plurality.

Islam and the Indonesian State

The constitutional review gave the opportunity for Islamic-based parties to reopen the debate on the addition of seven key words (in *Bahasa Indonesia*) of the "Jakarta Charter" of 1945: "with the obligation for adherents of Islam to carry out *Syari'ah* law." This had been contained in the original 1945 Constitution until the penultimate draft and remained the subject of deep divisions during the constitutional debates of the 1950s. It

was controversial even within Indonesian Islam — the leaderships of two mass Islamic organizations, Nahdlatul Ulama and Muhammadiyah, both of which opposed the addition of the seven words to the Constitution. It was equally controversial among followers of other religions, some of whom feared it as the cornerstone of an Islamic state, and among more secular nationalists. It was never going to command a simple majority in the MPR, let alone the two-thirds required if the issue had gone to a vote. However, many of the Charter's supporters were putting forward a position of principle: the issue also provided a distinguishing public theme for the Islamic parties.

The Proposal for a Constitutional Commission

An independent Constitutional Commission was first promoted after the 2000 Annual Session by a large NGO coalition, gaining considerable momentum after a favorable mention by President Megawati in August 2001. The MPR was never likely to accept a proposal to take the process almost fully out of their hands, especially as the NGOs envisaged the writing of a new constitution, not an amendment of the 1945 Constitution. The NGOs drew parallels with experience in Thailand, the Philippines, and South Africa, but the Thai constitution had originated from the military, the Philippine constitution from former President Marcos, and the South African constitution from the apartheid regime. The 1945 Constitution as a symbol of Indonesia's independence was very different.

The Constitutional Commission's proposal gained new support just before the 2002 Annual Session from military leaders, but for very different reasons from those of the NGOs. Strong pressure was brought by retired generals to roll back the whole amendment process and return to the integral concept of the 1945 Constitution. Given the momentum behind the Fourth Amendment at this stage, their idea was to use the Constitutional Commission to reverse the changes.

Amendment Completed

July 2002 followed a frequent pattern for the final stages of controversial and wide-ranging negotiations of any kind. Political leaders made strong statements warning of the dangers of failing to adopt their entrenched positions — threats of delayed elections, amendment implementation delayed until 2009, or a Constitutional Commission — while detailed work continued. PDI-P moved to accept a direct second-round presidential election — Megawati perhaps perceiving the desirability of maximum

legitimacy in her possible second term. The composition of the MPR and the Jakarta Charter, however, remained unresolved for the 2002 Annual Session.

The Annual Session was lively from the beginning. Anti-amendment members raised a series of points of order challenging its legitimacy, debating whether or not the MPR was still the highest state institution, and questioning the validity of Standing Orders. It took almost two full commission sessions to complete the formal process of leadership selection. The emerging lack of time led the leadership to limit contributions from individual speakers. PDI-P broke with tradition by publicly recognizing its internal divisions, designating two pro-amendment speakers and one anti-amendment speaker in each debate.

The two-round direct presidential election was agreed on without argument. The composition of the MPR divided the functional groups from all political parties. The functional groups were fully isolated when the military announced that their role lay in defense and security, *not politics*, and that they would now withdraw from all representative institutions in 2004. With the limited powers of the new MPR, a small group of military members would be merely a focus for unpopularity. Military power remains more effective and far-reaching outside the MPR and the DPR, especially while the territorial system remains in place.

There was wide agreement among the parties that the principles of the amended Constitution should not be reopened in any way that would make them a controversial issue in the 2004 elections. Agreement was reached to establish a constitutional commission through an MPR decree, which was submitted for plenary debate together with the Fourth Amendment.

A consensus had been rumored that voting on the Jakarta Charter amendments would be inappropriate. The Islamic parties finally indicated that they would not oppose the decision of the MPR to retain the original wording, although they regretted the rejection of the amendments and would continue to support their inclusion in a democratic way. These positions were to be recorded in the official record of the session. This outcome followed the principle agreed at the beginning of the review process that, if no consensus was reached on the amendment, the original text would be retained. The supporters of amendment had made their case, demonstrated their position to the public, and been formally recognized; their opponents had retained Article 29 unchanged — the elements of a win-win solution.

By contrast, the abolition of functional groups was finally agreed by a vote. Most parties were reasonably united. However, PDI-P was split, with 80 votes for abolition and 64 for retention — the first time such a

division of opinion in any party was demonstrated so clearly on the floor of a representative institution. This vote has been seen as an increase of internal dissent and power struggle in a party held together only by its head as President. But it has also been viewed as a vote which did not matter, enabling those who were doubtful about change to join the strong believers in the original 1945 framework in voting against a change which everyone knew would be carried, registering their personal reservations by doing so.

Just as it appeared that it was all over, the issue of the constitutional commission emerged once again. Despite the previous agreement, the military tabled a proposal to reopen the status of the constitutional commission, proposing in addition that the four Amendments should be valid only to enable the 2004 elections. Further tense negotiating breaks followed, and many of the politicians saw this new proposal as another attempt to overturn the new structure and as an unacceptable breach of a previous consensus. Finally, the military recognized that there was insufficient support for their proposal and withdrew it, receiving a standing ovation from other members. An exhausted session finally closed with members responding to a proposal to mark the making of history by singing the National Anthem together.

THE FOUR AMENDMENTS TAKEN TOGETHER: A "GOOD ENOUGH" AND CONSISTENT PACKAGE

From an integral state with the MPR as its single almighty institution, Indonesia has become a state with constitutional checks and balances and a separation of powers between the legislature, executive and judiciary. The MPR has set a rare international precedent by agreeing to vote away its all-powerful status. It also recognized that the complete package of amendments is consistent, good enough to define the new structure of the state and to organize the 2004 elections — with rough edges remaining which may be addressed by the constitutional commission.

The major changes made to the 1945 Constitution by the four Amendments are:

(1) The sovereignty of the people is no longer exercised in full through the MPR, but implemented in accordance with the Constitution itself.
(2) The MPR has limited specific functions only. These include considering constitutional amendments, swearing in the elected

President and Vice-President, and deciding action(s) if the Constitutional Court rules that an impeachment charge is well grounded. The presidential/vice-presidential impeachment process excludes removal from office on policy grounds.

(3) The MPR no longer has the constitutional function to make Broad Guidelines of State Policy (GBHN).

(4) The MPR is to consist entirely of elected representatives — the members of the DPR and the members of the new regional chamber, the DPD.

(5) The DPD will participate in legislation on issues relating to regional autonomy, center-region relations and natural resource management, and exercise oversight on these issues plus budget management, tax, education and religion.

(6) The President and Vice-President will be elected as one ticket in a direct election, with two rounds if no ticket achieves 50 percent or more of the vote and at least 20 percent in half the provinces in the first round.

(7) The independence of the election commission is specified. Political parties will be the participants of DPR elections, and individual candidates of DPD elections.

(8) A Constitutional Court separate from the Supreme Court is established with powers of judicial review of legislation, resolving disputes between state institutions, hearing claims for the dissolution of political parties and disputes relating to election results, and ruling on motions to impeach. (The general power of the Constitutional Court to interpret the Constitution remains unclear.)

(9) An independent Judicial Commission is established to deal with judicial ethics issues and proposals for Supreme Court appointments.

(10) The Supreme Advisory Council is replaced by a presidential advisory council within the executive branch.

(11) Constitutional backing is given for the principles of regional autonomy, confirming the spirit of the 1999 "big bang" decentralization and devolution laws.

(12) A central bank whose independence and accountability are to be determined by law is provided in the Constitution.

(13) Human rights provisions are added in line with the larger part of the Universal Declaration of Human Rights.

(14) Future constitutional amendments can be introduced by at least one-third of the members of the MPR and will require the support of over half its total membership with two-thirds of the members

> present. The Preamble is not amendable. The form of the unitary state is unchangeable, although the article containing this provision may be individually amended.

The new provision requiring the support of one-third of the members of the MPR for any proposed constitutional amendment makes it unlikely that the Jakarta Charter can be reintroduced in the near future. The 1999 vote for the parties that supported its inclusion would not give them enough representation under any conceivable electoral system.

SUKARNO VINDICATED?

In addition to completing the substantive changes, the Fourth Amendment appears to have resolved a major argument of Indonesia's constitutional history. President Sukarno's Decree of 5 July 1959 dissolved the Constituent Assembly (*Konstituante*) elected in 1955 and reinstated the original 1945 Constitution, an action accepted by the DPR seventeen days later. (The MPR did not exist in 1959, as there was no such body in the 1950 Temporary Constitution.) The constitutional legitimacy of this action has been much debated, although it has usually been regarded as valid *de facto.* The Fourth Amendment, however, specifically defines the 1945 Constitution as that Constitution which was proclaimed in 1945 and came back into force through the Decree of 5 July 1959. The institutions of the democratic era have accepted and validated Sukarno's action — which will undoubtedly have pleased President Megawati, who believes strongly in her father's legacy.

Process in a Democratic Representative Body: An Indicator of Transition

Sessions of the MPR had traditionally been formal affairs, assembling only to rubber-stamp Sukarno's, and later Suharto's, proposals. The excitement and momentum of transition changed all that. The 1999 General Session took place amid euphoria. The First Amendment was agreed by acclamation alongside the idea that the remainder of the constitutional review could be completed in one year. There was little in-depth analysis of the task ahead.

By 2000, the euphoria had almost totally dissipated. Parties, civil-society groups, and commentators were developing agendas. Both the conservatism and the inadequacy of procedures for debate meant that much less was achieved than many hoped. 2001 was the year the business managers of

the MPR learned and put into effect debate and negotiation processes without which the fundamental changes of the Third Amendment would never have been agreed. By contrast, members on the floor dominated the first days of the 2002 Session; only later was it possible for debate to be timetabled and the Fourth Amendment completed. The use of voting, the volume of procedural interventions, and the entry of reservations into the official record were all new developments.

There is a balance in any representative assembly between the right of business managers to get their business through and the right of members to express dissent and concern and ensure that this process is not easy or a rubber stamp. This balance is determined not only by the formal provisions of Standing Orders but by the accepted traditions of members' behavior. In this respect, the four MPR sessions that have dealt with the constitutional review demonstrate development towards effective pluralist debate in the institutions of a democratic society. It remains to be seen whether this development continues and institutionalizes new traditions — and how it is paralleled in other institutions in society.

POSITIVE CHANGE AND FULL DEBATE: STRIKING THE BALANCE

It is worth pondering the view of Jakob Tobing, chair of PAH I, that "most people did not realize what was happening until it was too late". While the implications of the amendments were understood by the constitutional reformers within PAH I, they were not realized widely until the major principles of change were already agreed and the Fourth Amendment already under discussion. But the process was not secret: plenary meetings were open to the press and public throughout, and many meetings for socialization or consultation took place. The entire amendment process appears to have been conducted in line with the Constitution, MPR Standing Orders, and other legal instruments in force. Given the principle of agreement by deliberation and consensus, it is doubtful that these far-reaching changes could have been agreed if all MPR members had been fully aware of what was going on throughout. Paradoxically, positive change may not always be helped by wider debate; there may be a necessary balance between them.

The question now is whether the changes will become entrenched and debate will move on. As the dust starts to settle, some external commentators are taking a more positive view. As Goenawan Mohammed recently wrote, "The problem now is to safeguard what is good in the 2002 Constitution and to start a movement to improve those principles that are weak … The

2002 Constitution was processed following an election in which, with all its faults, we participated, and which we acclaimed."

ONWARDS TO 2004: ELECTION FEVER STRIKES EARLY

The full package of constitutional changes takes immediate effect. Where new legislation and institutions do not yet exist, the existing arrangements stay in place *pro tem*. The existing MPR and DPR will stay in place until the 2004 elections.

With the new constitutional framework agreed, Indonesia moved almost immediately into pre-election mode. Politicians and parties have begun to see almost everything through a prism of electoral success. Pressure has grown to pass a new election law. The wish of elected members to take time for consideration and negotiation was, as so often, in tension with the wish of election administrators to organize early to tackle technical problems. The Government sought to ensure that the election administration secretariat remains within the civil service, while the independent National Election Commission saw itself as the reporting line of the administrators.

The Government put forward a new electoral system introducing the open-list principle, under which voters for the DPR would select their preferred party and could in addition give specific support to a candidate of that party. The political parties proposed different weightings within the electoral system: those with strength in Java, with 60 percent of the population, argue for a one-person-one-vote-one-value system and those with strength in the outer islands for their regional over-representation. The presidential election law is producing more political choices, with parties considering the advantages and disadvantages of holding the first round of the presidential election on the same day as the legislative elections.

A firm tendency remains towards tight control in political parties. Nominations of candidates are submitted by central-party organizations. Reintroduction of the recall provision, under which errant legislators may be removed from the DPR and replaced by other party members, is seriously discussed. Unless such a provision is very tightly drafted, it may easily be used as a sanction against dissent.

The DPR and Government of Indonesia face a heavy workload filling in the details of the new institutions. Early indications are that governmental bill-drafters are seeking to minimize the role of the DPD on the range of regional matters on which the DPR has legislative powers and of which the DPD has rights to participate in the discussion of legislation.

Both supporters and opponents of positions on many political issues are found within most parties. Parties are divided much more by traditional "stream" orientation (for example, secular nationalist, or soft or strong supporters of the two channels of Indonesian Islam) than by attitudes to education, poverty or even economic development. While the revision of the political party law proved the easiest task, the conditions for a new party to compete in an election are onerous. There is a possible danger that the existing parties could become firmly entrenched as a cartel, but over a period of years move a long way from popular aspirations.

HEROES OR MEN AND WOMEN OF CLAY?

One consequence of living through a complex process of change, blow by blow, is seeing it warts and all. Rambling discussions, contributions to debate which might be better forgotten, and excursions into blind alleys stand alongside the making of far-reaching decisions. Impatient observers contrast the process with the clear-cut achievements of the Founding Fathers of Indonesia or the progenitors of the United States Constitution.

What is forgotten is not so much that history is written by winners (although that is relevant), but that it is, by definition, condensed. The boring bits, the irrelevant ones, and most of the ridiculous ones get edited out in the telling. A story of grand purpose and achievements often does not reflect the experience of a contemporaneous participant or observer. It is unwise, therefore, to conclude from the day-to-day problems or histrionics of Indonesia's constitutional review that we have not seen a memorable change. The details are still to be filled in, and the new system is exposed to real political conflict.

Presidential government is a well-established form of democratic theory and a well-regarded practice — but it is another question whether it can succeed in Indonesia, or better, what kind of presidential system is more likely to succeed. Academic writings tentatively suggests three helpful factors: an electoral system that is likely to give the president a substantial block (not necessarily a majority) of reliable supporters within the legislature; the absence of wide-ranging independent presidential legislative powers (governing by decree); and a political party system which is neither too tightly disciplined nor loose and chaotic. Under Indonesia's amended Constitution and political laws, the first is almost certain, the second substantially true, and the third is not so likely.

In the sweep of Indonesia's history, a big leap has been made. What happens next is up to those involved. As Zhou Enlai is known to have responded when asked to comment on the French Revolution, it is genuinely too early to tell whether they will be successful.

Part 2

SOCIETY

Slouching Towards Democracy: Social Violence and Elite Failure in Indonesia

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INTRODUCTION

With the departure of President Suharto in May 1998, amidst an economy slipping toward a collapse and massive rioting in urban centers throughout the archipelago, Indonesia embarked on what has become a violent and painfully slow movement toward something called democracy. Accountable and representative governance has eluded Indonesians for decades during the period of Guided Democracy under the country's first president, Sukarno, followed by 32 years of General Suharto's authoritarian rule. Suharto and his web of family and cronies ruled the country with impunity on the assumption that it was tolerable by the masses in exchange for a massive national development project. The self-proclaimed Father of Development (*Bapak Pembangunan*) held a disparate collection of islands and peoples together through the power of his military, the coercion and enticement of his clientelistic relationships and co-opted silence of his most ardent critics. Many Indonesians paid with their lives; others lost their youth to the nation's *gulags* in far away places like Buru. Many lost their voice.

Following the 1998 implosion of the New Order and subsequent euphoric attempts at dismantling vestiges of that legacy, former political prisoners were released, students took to the streets and demanded real change, civil society coalesced and marched bravely and loudly forward to the drumbeat of *reformasi* (reformation). In 1999, many Indonesians developed high expectations for prosperity and freedom under a newly elected, democratic

1 The opinions expressed are personal and do not necessarily represent those of the United States Agency for International Development, the United States Government, or any other institution. I also wish to thank Lisanne Baumholz, Keith Hargreaves and Vanessa Johanson for their expertise and kind suggestions on earlier versions of this paper. All shortcomings, however, remain mine alone.

government led by the respected Muslim scholar and cleric Abdurrahman Wahid, fondly known as Gus Dur. This democratic exhilaration soon gave way to massive social violence, resulting in thousands of deaths and well over 1.5 million internally displaced persons — and tens of millions more affected indirectly. With an economy seemingly unable to collapse further, the country was struggling. Today, experts have yet to agree on the quality of macroeconomic performance, but all indicators at the micro level suggest that Indonesians continue to struggle to eke a living out of an otherwise stagnant economy. The students who once marched for the noble cause have proven to be collectively weak and politically transient, while the significant shortcomings of civil society in Indonesia have become increasingly evident.

In this chapter, I aim to address the phenomenon of social violence and the role of national and local elites within the context of Indonesia's transition from authoritarianism. Though social violence commonly occurs in multi-ethnic countries in transition, the extent to which violence has become socially acceptable throughout the archipelago and the extent to which Indonesians rely upon it for political and social survival are notable. To be sure, Indonesia has been no stranger to small-scale social violence. Throughout the New Order period, any modicum of social conflict outside the control and direction of the state was quickly and brutally "resolved" before escalating into widespread communal rioting. Since reform, the government itself has acknowledged this brutal legacy. At the dawn of the reform era, however, the security forces found themselves mired in the politics of transition, eschewed by the broader community and increasingly called to task for past and current abuses, while the officer corps attempted to surreptitiously regain lost political leverage. The government and military leadership have also allowed others — independently or in connivance with them — to exacerbate delicate socio-economic issues under the guise of ethno-religious solidarity (or nationalism in the case of East Timor) and cultivate visceral inter-group hatreds, resulting in the deadly internal conflicts we now see in Kalimantan, Sulawesi, Maluku, East Timor (now independent), and other parts of the country. This has served not only to justify a renewed role for the TNI (*Tentara Nasional Indonesia*, or military) in society, but also created lucrative conflict economies accessible to troops and lower-level security personnel in the wake of national economic and financial decline.

While an exhaustive inquiry into deadly social violence exceeds the limits of this paper, I focus here on elite failure, both nationally and locally, and argue that it has fuelled and enhanced social violence framed as ethno-

religious conflicts of the sort based on the untouchable issues previously referred to as SARA — *Suku, Agama, Ras, dan Antar golongan* (tribe, religion, race and inter-group relations). These conflicts are often masked as ethno-religious when, in fact , many are steeped in grievances based on access to resources — economic, natural, and political. These grievances — when exploited by the greed of a failed elite — manifest themselves in the real domain often as bloody ethnic riots. By failure, I am referring to a crisis in leadership from the national down to the local level, which has produced an environment conducive to social violence. When a community's elites fail to adhere to a social contract based upon enlightened leadership and prefer instead to pursue motives of power and profit, communal violence often provides the means to that end through lucrative conflict entrepreneurship and polarized communal-based loyalties. Contrariwise, for a minority of elites across the country, its influence is used not for personal gain, but for the strengthening of their wider communities. From greed for money and power to defending wealth accumulated during the New Order, Indonesian elites across the country have generally been unable to bring responsible governance to their communities and, in not doing so, have failed their co-citizens by allowing social violence to flourish.

Nevertheless, I must also report on more encouraging social change, for to look at social violence in Indonesia without addressing the country's increasingly enlightened elements would be short-changing Indonesian progress thus far. That would mean ignoring the progressively robust civil-society movement that attempts to address more assertively and effectively the gaps in governance that lead to deadly conflict, to what I refer here as social violence. We can see movements like Baku Bae (Maluku) or organizations like the Aceh Civil Society Task Force (Aceh) emerging out of the ruins of violent conflict as voices of hope for a just and peaceful future.

In considering the causes and impact of social violence — driven particularly by elite failure — I surmise that Indonesia's movement toward democracy is at best incomplete and sluggish. Indonesia needs to enhance its own commitment to democratic principles through culturally appropriate mechanisms to ensure that social violence neither delays important democratic consolidation nor devours what many call the nation's "lost generation." In any project of national revitalization, the country's elites, in partnership with a vibrant civil society, will play a pivotal leadership role.

DEFINING CONCEPTS

While a thorough discussion of key variables is beyond the scope of this chapter, I must briefly define some of the terminology or concepts that I employ throughout the text to avoid any potential confusion. Every nation, every social structure, possess a cadre of "elites". Even ruthless, egalitarian, and theocratic regimes such as the Khmer Rouge possessed a cadre of top elites. For purposes of my discussion, these are individuals who are chosen, selected, or self-proclaimed, in one way or another — through popular election, consensus, or traditional acclamation — to exert influence and leadership over their communities. It is purposely a broad definition and one that encompasses, among others, politicians, *bupatis*, traditional authority figures, religious leaders, and civil-society leaders. The premise is that without elite buy-in, even strong grassroots movements will encounter difficulty in consolidating transformative peace dividends through principles of representative and responsive governance.

The term "civil society" is itself a contested one in the literature. A variety of positions exist defining the parameters of civil society, how it interacts with government, and its relationship to the grassroots. For the purpose of this paper, I intentionally employ a broad yet simple definition. Drawing from notions used in contemporary civil-society literature, when employing the term "civil society", I refer to the social space in which organizations or loose associations develop to create connections among people, independent of the state and to enhance social development. Some would further argue that these organizations and associations must be voluntary and non-ascriptive in character. The latter qualification, of course, would largely exclude so-called "uncivil society", which tends to be organized upon ascriptive communal characteristics and primordial ties. In my treatment of social violence, the definition will remain inclusive. It is not the composition that concerns me here, but rather these groups' roles and activities within society.

"Conflict" drives human interaction and can either advance social and political developments shaping pluralist communities or promote a violent collapse of social, political and economic systems. If channeled through institutional mechanisms that are both socially and politically strong and acceptable, then conflict will mostly likely be non-violent. Contrariwise, when weak state and civic institutions exist, if at all, conflict often deteriorates into communal violence as the communally polarized groups exhaust the limited capacities of social and civic institutions to transform conflict into positive social change.

Conflict is a natural consequence of multi-ethnic and multi-religious societies and, when channeled appropriately and effectively, helps to manage differences among stakeholder groups. In Indonesia, where a legacy of colonial rule and authoritarianism led to the pursuit of a hollow notion of "unity in diversity" often with lethal force while stripping communities of home-grown conflict mitigation mechanisms, Indonesians are now coping with the challenge of developing conflict-resolution and transformation skills important to strengthening the rich diversity of their nation. As we have seen, without such skills, knowledge and enlightened leadership, low-level violence can and does spiral up into widespread chaos. This becomes social violence, manifested in murder, rape, forced religious conversion, destruction of infrastructure, looting, forced disappearance, and other violations of human rights.

Furthermore, I often refer to "post-violence" in an attempt to illustrate that, while the lethal manifestations of conflict as noted above may end in what some refer to as a period of "post-conflict and recovery," in fact "conflict", as I have defined it, often remains. Communities may become exhausted from the unresolved lethal violence, thus ending the bloodletting, but most are arguably not "post-conflict" in the sense that the issues and grievances that exist have yet to be effectively mitigated and pose serious risk of return to the *status quo ante* that initially produced the violence.

VIOLENCE TODAY

Today, Indonesia's complex human diversity is indeed beginning to be celebrated as a national asset, but the road is long, arduous, and sometimes violent. To give but one example of the growing appreciation for the nation's cultural diversity, let me briefly turn toward one community systematically marginalized from the political life of the nation: Indonesia's ethnic Chinese. Once fearful of violent communal responses not unlike the gruesome violence directed against their community in May 1998, Chinese-Indonesians began to celebrate festivals openly in 1999, such as Chinese New Year and performances of the *Barongsai* or Dragon Dance, with tentative first steps toward public displays in their own neighborhoods. In 2001 we saw more public and elaborate expressions celebrating Chinese heritage in major hotels and malls across the country. At the end of 2002, the *Barongsai* was featured at the New Year's Eve celebration in Jakarta and showcased on the main stage on the capital's main thoroughfare at the Hotel Indonesia traffic circle. In addition, at the same event, organizers

held a prayer service inviting representatives from the six religions — Islam, Protestantism, Catholicism, Hinduism, Buddhism, and Confucianism. Such public legitimatization of *Barongsai* and Confucianism was unthinkable even five years ago. In 2003, the Chinese New Year, or *Imlek* as Chinese-Indonesians call it, became a national holiday for the first time.

However, all is certainly not rosy. The various complex humanitarian and political emergencies throughout the archipelago since 1998 have produced well over a million and a half internally displaced persons (IDPs), further affecting the lives of millions more Indonesians. Issues — real or imagined — are often exported into the political realm, locally or nationally, for immediate political gain. In some conflict areas, Aceh and Maluku in particular, the percentage of population that has at one time or another been forcibly displaced reaches damaging proportions. These IDPs — and the violence that displaced them, destroying their lives and livelihoods — represent the most vivid illustration of mismanaged and often engineered communal conflicts in Indonesia.

Under Suharto, violent clashes between confessional and communal groups were simply not tolerated, quickly pacified by brute force, and systematically disappeared to the closet of the New Order. His regime either disallowed or ensured the marginalization of any powerful political or social movement that tried to mobilize citizens locally for agendas of social progress outside the parameters of state thought. Under Suharto, civil-society organizations (or CSOs) were allowed to flourish only if they legitimized the regime rather than promoted real societal change through substantive discussions on the diverse challenges of uniting a multi-ethnic country. The regime barred a strong inter-communal civil-society sector from developing that could actively and continually address significant conflicts among groups, thus consolidating a social order deemed conducive for "development" that used force to pacify outbreaks of violence rather than strengthening social capital to preempt it. Indeed, the government admits its legacy of brute force in the National Planning Board's (BAPPENAS) 2001 Human Development report that acknowledges: "The New Order government was alert to [social violence] and was determined to enforce stability. To achieve this it stationed the army in territorial units across the country ready to intervene as required — and they often did so with considerable ferocity." To be sure, it is to the credit of the reform governments since 1998 that this can be admitted publicly.

The Suharto regime's reliance on the armed forces to quell any violence that risked disrupting the country's economic prosperity, or threatened the delicate ethnic and political interests he constantly leveraged, placed the

military in the role of a final arbiter of violent disputes, effectively negated the development, evolution and consolidation of civil-society organizations, and decentralized government institutions capable of facilitating peaceful resolution of local disputes within and among communities. Through the Javanization of the centralized institutions and mechanisms of governance combined with the expansive network of security forces down to the smallest villages, local indigenous structures were systematically emasculated, leaving many communities defenseless when faced with complex political and economic interests arrayed against them — compounded by overt dependence upon the intervention of the security forces. In the form of crony business-military alliances often with local politicians and community leaders, these forces corrupted traditional authority relationships. As a result, clientelistic networks that stretched from the powerful center to the resource-rich periphery thrived. Suharto's New Order was therefore able to co-opt many indigenous mechanisms of governance. Through the parceling out of power and state resources, derived from the state treasury as much as — if not more — from lucrative off-budget enterprises, government leaders along with the military and police were able to either co-opt those who might oppose them or shuffle off to prisons those who might become a liability to the regime.

This overt and very real reliance on the security forces for everything from conflict resolution to managing delicate ethno-political demands left the country empty of mainstream and assertive civic institutions directly accountable to the communities which they serve. These kinds of institutions might have offered alternative centers of independent influence in helping to resolve social conflicts before they turned into social violence. At the same time, such institutions of course threatened the very existence of the New Order. Instead, the New Order relied for the most part upon non-organic military men to manage local social conflict and rule by force to temper violent dissent and provide an illusion of social harmony, notwithstanding the significant blood-letting illustrative of lethally strained inter-group relations. This strategy served only to stall the coming plague of massive orgies of violence inevitable from contained yet unresolved communal grievances and hatreds. In view of stalling such vivid violent expressions throughout the life of the regime, the New Order often orchestrated ceremonies and reconciliation efforts to "resolve" conflicts once they became sufficiently bloody to warrant armed state intervention. These approaches were always top-down and rarely, if ever, addressed the fundamental grievances underlying the conflicts. In fact, they may have provided false security to affected communities by giving the appearance

that something had been done when, in fact, very little had been achieved in terms of transforming conflict dynamics.

Today, with the TNI and police openly criticized in the domestic and international press for atrocities in East Timor, Aceh and West Papua, the capacity of the security apparatus to react to outbreaks of violence has been severely limited, and their willingness to intervene when the territorial integrity of the nation is not in contest has diminished considerably. The consequence of such a legacy is one in which few institutions — civil-society, government, or otherwise — exist for halting potentially lethal rumor mongering or effectively addressing competing interests and grievances. We see this not only in regions of violent conflict, but also in those regions not experiencing open communal violence where community relations have become noticeably strained by virile and exclusive communal rhetoric.

Indonesia's deeply entrenched system of elite politics and accompanying patron-client relationships and embedded corruption at all levels of society and culture of premanism (or thugism) have produced disincentives for citizens to follow what weak legal or other institutional channels may exist to address and resolve competing claims and grievances. To be sure, in some areas few CSOs can measure up against the organizational capacity (and rhetoric) of those elements in society, often managed by elites, which perpetuate negative perceptions of "the other". This may include stereotyping, complaints regarding irrational grievance or abuse of power, or even communal-based claims on history or tradition. The good news is that civil society, together with progressive people in the state bureaucracy, has begun to fill this void in a limited way, but I will address this later.

INDONESIA'S ELITES

Throughout the New Order, the politics of only one man, President Suharto, was of any consequence. His massive web of patron-client and nepotistic relationships ensured that the small, Jakarta-centered cadre of national elites fell neatly in line with his own policies and vision — with them in turn demanding obedience from their local subordinates. With the implosion of his system under the weight of the Asian financial crisis starting in 1997 and his unusually quiet resignation amidst massive violence in May 1998, Indonesians across the archipelago and the Diaspora imagined the nation awaking to a new, enlightened dawn. It soon became clear, however, that enlightened leadership would not be the forte of the elites who survived the upheavals of the early post-New Order era. While many reform-minded

intellectuals joined the ranks of the burgeoning civil-society movement, many were either unable or unwilling to penetrate the sorely vilified institutions of state governance.

In 1998, newly appointed President B. J. Habibie took cautious yet landmark breaks from the New Order past. His bold move to decentralize power away from the Jakarta center and move it to the regions attempted to address concerns of national disintegration. Under the subsequent decentralization and regional autonomy laws that ensued, the new Indonesia decentralized the greed and corruption of the old Jakarta center and extended it throughout the country. No longer does Indonesia have one Suharto; it now has multiple Suhartos spread across the archipelago. Demands for slices of the pie, as it was, got bigger — much bigger. In fact, in one of her few year-end public appearances in December 2002, President Megawati Sukarnoputri clearly acknowledged that corruption had become even more rampant in the Reform Era than under the New Order.

With newly created bureaucratic infrastructure to access state wealth established in the provinces, both newly emerging local elites and those ex-New Orderites who returned to their roots from the Jakarta center quickly went to work reconstituting clientelistic networks from the debris of the New Order, or with the new materials of the Reform Era, and massaged so-called grassroots support in their ethnic homelands to support their networks. This often came in the form of uncivil society, those elements that demonstrate intolerance and tend to use violence to achieve often communal-based interests. To the advantage of irresponsible, cunning elites, conflict entrepreneurs, and other uncivil-society elements, the Indonesian media — either by intent or consequence — has often reinforced divisive discourse rather than promote inter-communal connectors. Though there has been some progress in addressing this, reducing elite manipulation of a weak media sector and strengthening the professionalism of the media represent significant challenges in rooting out factors that lend toward intolerance, disinformation, conflict, and violence.

CONFLICT ENTREPRENEURSHIP AND SOCIAL VIOLENCE

National and local elites often seek maximum personal gain from minimal personal investment. For many, the incentives remain exceedingly high for manipulation of local issues — or in some cases, issues with national or international resonance manifested locally — to exacerbate communal cleavages. These cleavages often open new avenues for generating wealth and prestige. In communities with insufficiently strong civic ties or limited

social capital, these grievances, when merged with elite greed, financial resources and sufficient mobilization of supporters, often result in violence.

We have seen this phenomenon across the archipelago. Elites develop or co-opt associations and organize NGOs, claiming to represent particular confessional or communal groups and pursue interests unilaterally on their behalf. Often these groups further reduce to exclusive *adat* or ethnic roots. To be sure, taking pride in one's ethnic group is not uncivil. The irresponsible and reckless use of exclusive ethnic rhetoric as an associational basis most certainly is. As such, some even set up, or become associated with, social welfare organizations or similar civil-society organizations to serve their own constituencies in moves to gain increased legitimacy among "their" grassroots. The supposed faith-based Muslim Laskar Jihad and Protestant Minahasan Brigade Manguni are good examples. While the former has openly used violence to advance its cause of ostensibly defending Islam in various parts of the country, the latter has, to date, used threats of violence to ensure its ethno-religious agenda in North Sulawesi. This re-enforces and legitimizes intra-communal discourse at the expense of enhancing pluralist ties ("we are not like them"). The point here is that whereas many CSOs and religious associations legitimately promote group interests, the manner in which they go about it — either peacefully or violently, either in an inclusive or exclusive manner — is of primary concern to this analysis. To illustrate, consider that in the year 2000 Minahasan political elites — drawing their numbers largely from the business and political community of New Order Minahasan elites in Jakarta — held *Kongres Minahasa Raya I* (and a year later, *Kongres Minahasa Raya II*), an entity purported to represent the wider Minahasan community, both in North Sulawesi and the Diaspora. This exclusive club of ethno-elites served little purpose other than encouraging Minahasan exceptionalism. Today that region is considered by many observers as conflict-prone. Since the fall of Suharto, ethnic Betawis (previously the dominant ethnic group in what is now the capital, Jakarta) have grown increasingly assertive. This is a growing trend throughout the country. In fact, similar ethnic-based people's congresses have been held in Riau (2000), Papua (2000), and Central Kalimantan (1998, 2001).

Within this framework, greater emphasis on "in-group, out group" dichotomies will have clear losers, not least among them IDPs and minorities throughout the archipelago. Throughout the New Order period, the national and provincial governments failed to balance competing interests and claims from minority groups causing grievances to fester, often manipulated by ethno-religious elites eager to (re)distribute power

and resources. Through decentralization, the scramble for control of decentralized wealth of the state, including sand, timber, and other scarce commodities, may serve to prolong violent conflicts.

As a result, the trend in Indonesia today is towards localized reinforcement of ethnic and religious dividers even where grievances may have been genuinely socio-economic in nature. As noted Dutch Indonesianist Gerry van Klinken has observed, even in places where there has been little or no violence, "local elites, from Flores to Gorontalo, from Minahasa and Banten to Riau, are building an exclusive discourse of ethnicity such as has not been heard so publicly before in Indonesia." Indonesia suffers from institutional and social weaknesses, a culture of violence and decades of domination and social engineering by an authoritarian regime. Nationwide, individuals are finding comfort from national political and economic instability by looking inwards, searching for identity within their own primordial groups. This accommodates very nicely the project of elite conflict entrepreneurship. As a result, local and national elites tend to be accountable only through their networks of patramonialism or clientalism and rarely to any sort of broader, integrated "constituency".

In post-violence areas of the country, structural aspects of society that center on elites should be addressed by all stakeholders — with crucial support from the international community and civil society — and by responsive and transparent local government. This could help communities remain alert to elite struggles for control of commodity exploitation, local government administration, or informal fees levied on markets and small businesses — especially in communities marked by highly segmented social organizations, including labor markets. As is often the case in many parts of the country, successful business and political elites tend to favor recruitment based on seemingly more secure family, ethnic or religious ties. In post-violence communities, returns to such patterns of employment or social organization reinforce distrust, create obstacles to social capital formation, and increase a community's risk of conflict escalation once again. There is also the danger that similar civic associations begin to form along the same lines and often headed by the same elites — attempting to entrench their hold on local avenues of power through legitimizing associations while massaging strategic relationships with the military or police.

Transforming these kinds of exclusive associations that carry high social — and economic — costs will limit the tendency to entrepreneur conflict and decrease the efficiency costs of economic and social exchange. This is necessarily a long-term endeavor. However, by so doing, post-violence

communities may be able to better control the influence of particular ethnic elites (who are also the perpetrators of violent conflict). Such a scenario will assist communities to better safeguard themselves from future attempts at manufacturing grievances and mobilization along primordial lines. Of course, addressing entrenched patron-client networks and relationships is no simple task — and it is a long-term project of the Indonesian nation. This will only be achieved through a deliberate process of education and democratic governance.

To be sure, the outlook for Indonesian political and social leadership is not completely bleak. While both domestic and international media have focused substantial efforts on reporting atrocities, demanding accountability and, intentionally or unintentionally advancing rumor and innuendo, there are many enlightened leaders within Indonesian civil society and local government whose initiatives have helped keep their communities free from violence. Others have worked, at great risk to their own lives and livelihoods, to bring closure to bloody episodes in their community's collective history. The Nahdlatul Ulama (NU), for example, has begun to face its complicity in the killings of 1965 when between 500,000 to one million alleged communists were brutally murdered. To be sure, the institutional disempowerment of local governments and functionaries may also have inhibited the exercise of authority, development of confidence, and procurement of the resources necessary to meet the challenges of inter-communal conflicts.

We must acknowledge that the dynamics underscoring social violence are not unique to those regions of Indonesia suffering from social violence. In fact, I would argue that those dynamics, largely the result of machinations of the old regime and by-products of tight patron-client networks, exist throughout the archipelago. While I surmise that the strength of social capital — drawn from inclusive and inter-communal civic life — may be the key to peace, to date little empirical data exists to conclude with certainty what separates violent areas from peaceful areas. For example, is peace causally related to higher employment, better performing local economies, or to education, or communally mixed associations and business organizations? Much remains to be learned and studied with respect to peace in Indonesia before credible conclusions can be drawn. Some institutions, such as the United Nations Support Facility for Indonesian Recovery (UNSFIR) and the University of Indonesia, have teamed up with skilled researchers to look at these questions. What is perhaps not overtly obvious but nonetheless pointedly certain is that we cannot ignore the peaceful realities in many parts of the country. Since decentralization of

many governance activities to the district level, we have seen hundreds of local elections, from Bupatis to Village Representative Councils (itself a new post-New Order phenomenon), taking place in complete peace. Why this is so remains a question that skilled researchers, particularly Indonesian researchers, will need to investigate in view of strengthening national resilience and resolve toward advancing a peaceful tomorrow.

Apart from potentially engineering violent social conflict, elites can, and sometimes do, serve to strengthen local capacities for peace. These are whom I call "enlightened leaders", and they serve their constituents in constructive ways. I refer to the myriad religious and communal leaders — and occasionally the odd modern politician — who recognize the importance and necessity to move their communities beyond ascriptive primordial divisions. Through cultural norms of consensus and deliberation and visionary leadership, these men and women strengthen the nation's collective social capital. While economists may speak of a frail macroeconomic forecast and dismal microeconomic realities for tens of millions of Indonesians, I would posit that the nation's collective social capital is improving. Assertive civil society, articulate and responsive religious leaders, and increasingly politically educated citizens all attest to this fact. The 2004 national elections may very well be the biggest challenge to the new Indonesia's increasingly vibrant civil society.

Across the country we have witnessed the development of citizen-initiated associations and civil-society organizations that reach across divides or bring like-minded people together in regional and national fora. These citizen activists bring their message in full view of the public and their leaders in Jakarta. To illustrate, consider the Baku Bae movement that has helped bring some modicum of stability and peace to the violence-torn areas of Ambon island, or the Aceh Civil Society Task Force and Coalition of Human Rights NGOs in Aceh that have served as the voice of civil society in conditions arguably both violent and uncertain.

Nevertheless, as popular confidence in the apparatus of the state further deteriorates, we can expect people and groups to express grievances through extra-institutional mean, i.e. street justice and communal riots, given the lack of effective governance and CSO capacity. As was the case in parts of the Malukus, many communities unwittingly created institutionalized riot systems. Elites, civic associations, *preman* (thugs), and religious leaders formed networks within their own ethnic or religious community that not only thrived on but actively distributed rumor, propaganda, and violence through what many termed "early warning systems". These systems can quickly overcome a community's ability to prevent violent escalation. As

long as few strong institutional means exist for correcting negative perceptions or eliminating the institutional riots, systems that exist within society and elites will continue to employ legitimizing yet divisive means toward wealth accumulation. Once serious conflict emerges, violence can easily escalate, given weak or non-existent structures for mitigating it.

ELITES AS PEACE BRIGADES

While a hallmark of the New Order period, corrosive patron-client relationships are not synonymous with traditional authority, an integral part of Indonesian society. Through *musyawarah* and other forms of community engagement, traditional leaders historically were held accountable to their subordinates. To be sure, traditional authority relationships are asymmetric in nature and rarely required material reciprocation as we find in patron-client relationships which, based on implicit promises of profit and power, risked collapse as they are based on very different and generally fragile bonds.

The important point is that Indonesia's system of traditional authority was quickly corrupted and co-opted by both the Dutch colonialists and more aggressively by the New Order regime. Local leaders quickly became subordinate to the local military command. To survive, much had to be surrendered to the state. With the backdrop of *reformasi* (reform) and newly empowering legislation bringing power to the periphery, today's local authorities are attempting to recast local power, or local authority, within the context of *adat*, loosely associated with traditional authority.

The term *adat* represents all aspects of a community's social, religious, cultural and economic life. While manifested variously throughout the New Order and used as an instrument by Suharto to bring order to the archipelago, *adat* was employed by the regime in support of integrated nationalism, development, stability, and monotheism. Today, many local elites seek power and access to state resources via resurrected adat institutions and customs, or indeed by outright creation of new mechanisms claimed to be *adat*.

Adat can strengthen and justify traditional authority figures. These individuals, nearly always men — a significant gender issue that *adat* structures must address — can use the traditional authority they might now have to advocate and support local capacities for peace, thus enhancing inter-communal civic life and responsive and accountable governance. Or they can use the power vested in them abusively to further lucrative economic relationships among small groups of individuals that result in

social instability and economies of conflict. When used as a responsible vehicle for local-level, culturally specific governance that draws upon both modern principles of inclusion and traditional community respect, *adat* could support peaceful alternatives.

Significant to the future stability of Indonesia is the responsible transition of local traditional authority relationships away from those based on corrupt clientelistic reciprocity toward the fundamentals, or *adat*, of the institutions themselves within a framework of representative governance. Traditional authority and democratic institution-building need not be mutually exclusive and can, instead, mutually reinforce each other. Recall that patron-client relationships enhance a political and economic system based on the underlying premise that clients maintain conditional loyalties involving mutual benefits. This type of system is inherently unstable in the long run because relationships among individuals that are of unequal power and linked solely through exchanges of favors meant to enhance a client's perceived economic and social gains are fundamentally ephemeral.

Though asymmetric, traditional authority relationships are, as noted earlier, not based necessarily on exchanges, but rather on loyalties based on the acceptance of historical institutional arrangements and patterns of established social relations. Whereas these institutions can be abused for self-gain, i.e. through patron-clientelism, they can also be harnessed to advance social integration, harmony, and peace. These leaders are also part of Indonesia's elite and have particular responsibility to ensuring that peace prevails. Attempts have already been made by the post-New Order governments to use these relationships to bring peace, as with the Malino I and II peace accords. This has, however, been accomplished in a top-down manner, not unlike the pseudo conflict resolution techniques of the New Order, as noted earlier, that avoids local ownership.

Traditional authority, in my view, could be developed into a cultural variation that creates accountable and responsive local government better equipped to absorb and mitigate grievances before they turn into violent social unrest.

DEMOCRATIZATION AND RECONSTITUTION OF PEACE

Francis Fukuyama's well-known *End of History* thesis suggests that, globally, systems of national governance are moving inexorably on the path toward liberal democracy. Indonesia, many note, is no exception. Others in the conflict literature suggest that liberal democracy in itself can act to mitigate social violence, especially that which results in the brute

displacement of hundreds of thousands of people, and the destruction of lives and livelihoods. Indonesia's contemporary experience indicates, much like other developing countries in transitions, that the move away from a history of authoritarian rule toward something like democracy is often a national struggle and not easily reduced to theory alone. Rarely do entrenched elites — even though democratically elected — move to alter the system through which they gained power, but today in Indonesia, those very elites are charged with rewriting elections laws, developing a new system in which the nation directly elects its President and Vice President, and creating a democratic framework that requires accountability and responsiveness by the government to Indonesian citizens both at the national and local levels. The process of history is as important as, if not more than, its end.

But this process is slow. The elite's inertia with respect to important social development issues is real. Leaders often make only perfunctory gestures in support of more inclusive, pluralist discourse aimed at pacifying "modern liberals" while unabashedly driving exclusive political agendas. In my view, this has moved Indonesia slouching toward democracy. In the main, Indonesia's cadre of national elites is generally averse to significant change that could place their own lifestyles in jeopardy — in turn stalling the reform process, impeding significant strides toward responsive and accountable governance, and increasingly coming to loggerheads with a more assertive civil society. Greater respect for democratic principles within a system governed by enlightened leaders will form a firm foundation for reconstituting social peace across the country.

CONCLUSION

This paper is neither meant to be comprehensive nor conclusive regarding the complex issue of social violence. Reconciliation and effective transformation of social violence into useful social change are necessarily a long process. While presenting one view aimed at looking forward, I hope to have addressed some proscriptive elements as well.

Although Indonesia today suffers from both social malaise and bureaucratic lethargy when it comes to addressing very real issues of social violence, this need not be the future. Predatory Dutch colonialism followed by decades of authoritarian rule has left Indonesia riddled with corruption, ethnicity-based clientelistic networks, and a society unable to enjoy the real benefits of its diversity. No real institutions, either from within

the government or without, have developed to effectively mitigate violent expressions of communal and sectarian social violence. The New Order relied on the might of the security forces to quell any conflict, often with brute force under the protection of media censorship, leaving the nation devoid of any real mechanism for addressing grievances that had developed as a result of opaque and Jakarta-driven initiatives to coerce, divide, and rule the provinces. With the military no longer willing to engage in conflict suppression in open view of a liberalized domestic and more accessible international media, grievances grown and massaged by local elites have quickly turned into violent clashes, resulting in massive displacement, death, and destruction.

In shifting the discourse from that of retrospective to future search, it is imperative to address key issues associated with what is, in effect, the re-establishment of society and civic life guided by enlightened leadership. Expectations that the forcibly displaced and those affected by social violence will easily adjust to transitions to peace fail to grasp the magnitude of their displacement and the completeness of their experiences. It is in Indonesia's best interests to facilitate the re-establishment of post-violence society in such a manner that cultivates capacities for peace, seeks to adjust inadequacies in social and governmental structures, accesses culturally appropriate leadership mechanisms, and aims to affect real transformation through long-term commitments to education and rooting out corruption.

Processes aimed at building peace in post-violence communities require partnership among all stakeholders in society, not least between civil society and government. The country's new generations of elites will be called to task, and it is essential that they develop a new moral leadership that can dismantle those social structures that are destructive to the wholeness of the nation. These leaders must work with educated citizens who eschew fatalistic notions of cause and effect, and of the ruler and the ruled, who will no longer patiently wait for God to appear and deliver them from the uncertainties facing them.

Addressing social conflict and social violence is part and parcel of successful democratic governance. Without serious consideration of social, cultural and institutional arrangements as well as elitist strategies that lend themselves toward violent confrontation and communal violence, the country can only hope to move slouchingly towards democracy. Liberal democracy *per se* will not bring peace to Indonesia, but peace cannot prevail without the supportive structures found in a democracy. To stumble or march aggressively towards democratic peace is ultimately dependent upon enlightened elites and an assertive civil society.

Same Faith, Different Names: Islam and the Problem of Radicalism in Indonesia[1]

Hasyim Muzadi
General Chairman, Nahdlatul Ulama (NU)

After the 11 September tragedy, which destroyed the World Trade Center Towers and killed thousands of human beings, Muslims were suddenly placed at the center of the world's attention. The international community seemed to judge them as terrorist and responsible for the disaster. In Indonesia, that arbitrary allegation seemed difficult to counter and even heightened when the 12 October 2002 tragedy in Bali was said to have been carried out by an Islamic radical group.

Indonesia was later deemed as one of the terrorists' quarters that had to be observed vigilantly. At least, as the largest Muslim country in the world, Indonesia was deemed as a fertile ground for the various Islamic radical groups — which often sponsored violent actions and allegedly had links with international terrorist network — to grow. In other words, in the eyes of the international community, particularly the West, Islam in Indonesia tends to show its violent face which remains ready to spill blood.

With such attention and allegations, Muslims have responded in different ways. On the one hand, there is a group that rejects the allegation simply with theological-normative arguments that Islam is a religion of peace (*rahmatan lil al-aalamiin*) — regardless of how Islam is being practiced by its adherents and the root causes of religious violence. On the other hand, there is another group that accepts the allegation without reservation. The latter also tends to disregard the complexity of the link between Islam and terrorism.

Aside from these two groups, there is a third group that attempts to provide arguments that Islam in Indonesia does not have only one face. While acknowledging that there is a small number of Muslim groups with a certain theological comprehension that tolerates violent actions in the

1 Translated from *Bahasa Indonesia* by Umar Hadi, Media Relation Officer, Ministry of Foreign Affairs of Indonesia.

name of religion, the third group also provides argument that the mainstream of Islam in Indonesia is indeed far from being violent. On the contrary, religious practices of the majority of Muslims tend to promote love and affection as well as a friendly and peaceful attitude.

Nahdlatul Ulama (NU) and Muhammadiyah, the two largest Islamic organizations in Indonesia, are often referred to in order to prove that violence is not a part of the majority of Muslims' behavior. For NU, for instance, it is impossible to link, or to identify, the trend of terrorism and other violent acts with any religion. There is no religion that condones violence. If there is a group of people that perpetrate a terrorist act, even if it is based on an ideological, transcendental motivation, it is impossible to justify the act itself as a religious manifestation.

For whatever reasons, terrorism is the most vulgar and barbaric crime against humanity. Religion is a system of belief, aimed at creating civilization and, at the same time, a human soul that is full of divine values including affection for one another. Hence, in principle, terrorism and religion contradict each other.

This argument may still be challenged: is it true that terrorism has no linkage whatsoever to religion? Upon closer observation, the aforementioned ethical-normative argument has its merits. As mentioned earlier, it is impossible for Islam to teach its adherents to commit violent acts and endangering other people's lives. This applies to other religions as well. According to Islam, fighting a crime with inhumane methods is as bad as the crime itself. Also, inviting another person into the way of God has to be done in a peaceful manner — without using any force or violent means. Otherwise, it would only degrade the dignity of Islam.

Moreover, the history of Islam in Indonesia is, in fact, almost free from the trace of bickering. It is a historical fact that the advent of Islam to Indonesia relied more on cultural avenues rather than violent acts. Starting from the era of Arab and Gujarati traders — and even Chinese traders — across the coastal areas of Nusantara (the Indonesian archipelago) in the 7th century, followed in the subsequent centuries by the *Walisongo* (the nine great advocates) that brought Islam deeper into the island of Java, Islam had generally been introduced to the society by ways of dialogue, discussion, art and literature, and other cultural activities.

There were many artistic expressions in society at that time which initially were part of a creative manifestation of Hinduism and Buddhism. They were not destroyed. Instead, they were enriched by Islamic values, or they were simply "purified" from contents that were against religious principles. There were also animistic rituals which had already existed and

rooted in the society. They were not destroyed either. They were simply modified, so that they were not in contradiction with Islam or the belief in one God.

These historical facts describe how Islam in Indonesia has basically three characters.

Firstly, it is a religion that advocates peace — in accordance with its promise of eternal safety for all human beings. Its success as a religion adhered to by the majority of the population in Indonesia cannot be separated from this. For Islam itself, violence is the last resort that can only be used for self-defense when there is no other way.

Secondly, it has a capacity to engage in dialogue with other religions or beliefs that exist in society. Facing pluralism does not make Islam lose its flexibility to build a mutually shared living order which is characterized by mutual respect and understanding. It does not mean, however, that the truth that Islam maintains is exactly the same as that of other religions. Moreover, Islam will never annihilate any religious conviction, which is indeed an integral part of humanity.

Thirdly, it has a readiness to become a part of the Indonesian identity, which undoubtedly depends on an inherent process of "cultural marriage." Even though the religion of the prophet Muhammad came from the Middle East, which made it impossible to be free from the influence of the lifestyle of Arab peoples, Islam has certainly experienced a typical Indonesian "syncretistic" process while immersing into Indonesian society. This means that its developed religious tradition is more characterized by the face of Indonesian culture, which cannot be compared to the face of Islam existing in other parts of the world, including the Arab region.

These three characters make Islam in Indonesia almost foreign to violent practices in the name of religion. The question is why terrorist acts take place in Indonesia.

TRACING THE ROOTS OF RADICALISM

It is indeed difficult to comprehend why communities that express their piety in paradoxical ways to the ideals of their faith always exist in every religion. On the one hand, religion teaches affection, tenderness, and tolerance. However, on the other hand, the reality seems to be otherwise, i.e. the presence of cruelty, rudeness, and intolerance. Nevertheless, there always are people who are moderate in their attitude towards others and their religious beliefs. Unfortunately, religious leaders are often reluctant

to explain this phenomenon fully. Instead, they tend to present only ethical-normative arguments. While the normativeness of a religion is something different from the history of that religion, history is, to a large extent, a reflection of a normative understanding.

Aside from that, the insufficient explanation is sometimes linked by other groups to religious problems only, without incorporating non-religious aspects as important variables for analysis — so that the explanation itself could offer a complete analysis of the real root causes.

One thing that is impossible to conceal is the fact that there is one dimension of terrorism that has a connection to the problem of religious radicalism. In the name of faith, religion is forced by a certain group to legitimize its violent actions, but one thing needs to be closely observed, and that is, one cannot blame the doctrine of a religion. The blame should be placed upon an interpretation of the doctrine, which may beget an incorrect manifestation of a religion. This is often displayed by those whom we call fundamentalists.

Generally, fundamentalism itself can mean a return to something fundamental, basic, or principled. That fundamental, basic, or principled something is deemed as something "pure" and "the right one". Hence, it needs to be defended from anything that can degrade its purity and rightness. For the proponents of this school of thought, its purity and rightness can only be traced and found through a literal comprehension of the holy text. For them, the effort to defend the purity and rightness is understood as the effort to defend the religion itself. With that faith, the adherents to this religious paradigm believe that their struggle will not be for nothing, because that struggle is regarded as *jihad* (Islam) or *holy war* (Christianity). Even when they are defeated in their struggle on earth, they are confident that God will bless them with glory in the afterlife.

As a term produced in and by the West, fundamentalism was not really known in the Islamic world at the beginning, although there were similar social norms in both worlds. It is still quite problematic today to link the word "fundamentalism" to Islam. There are many Muslims who reject this terminology not only because it came from Christianity, but also because the fundamentalist labeling of (a minority of) Muslims is considered a conspiracy by the West to drag Islam into the worst place in the history of civilizations. In other words, for some Muslims, fundamentalism is not merely a sociological category to facilitate a scientific and objective analysis, but it is packed with ideological notions that reflect a stigma of the Islamic world.

As a sociological term, "fundamentalism" is basically a neutral term that can be positive or negative, depending on the context in which it is used. Fundamentalism is positive when it refers to a group that is faithful to its conviction. It is negative when that group finds it difficult to spread its ideas and resists other people that it considers as "enemy." Therefore, an "outsider" deems a fundamentalist group as a rigid, fanatic, and uncompromising group, although that assumption is not always plausible.

Before dissecting the theological aspects of Islamic fundamentalism further, there is a need for us to review the presence of Christian fundamentalism. It is important to have a comparison in theological and sociological aspects of fundamental movements in different religions. Through this exercise, it is expected that we would become wiser in understanding the trends and debates of religion. Hence, there should not be arguments on or rejections of the term fundamentalism without reason — just simply because it came from Christianity. It is not the term "fundamentalism" that matters, it is more about how people interpret and express it. Indeed, the word "fundamentalism" can be replaced by any word as long as it has the same influence on its adherents and their behaviors.

It has to be acknowledged that the demands for democratization in the Western world in recent history, slowly but surely, sidelined the power of the church, which had for centuries held the authority to rule and establish societal values. For centuries, the church was the only crux of the truth in almost every aspect of social life. In the 19th century, it started to be questioned, particularly after many scientific discoveries were made, and they clashed with the church's version of truth. For example, the speedy acceptance of the evolution theory, within or beyond biology expert communities, was considered a threat to the authority of the Bible — the primary source of Christian theology.

The Bible Conference of Conservative Protestants convened several times to establish its position. In its 1895 meeting in Niagara, the Conference issued its position on fundamentalism, later known as "the Five Points of Fundamentalism." These five points are: (1) the verbal inerrancy of the Bible; (2) the divinity of Jesus Christ; (3) the Virgin Birth; (4) the substitutional theory of the Atonement (i.e. that Jesus Christ died for us as a redemption of the sins of the world); and (5) the physical resurrection of Christ and his bodily return to earth on the Last Day.

The term "fundamentalism" became more popular after a series of twelve pamphlets entitled "The Fundamentals: A Testimony to the Truth" was written in 1909 by leading evangelical churchmen and later published and distributed all around the world.

Those were the days of heated debates between science and theology. Because the church was deemed unable to accommodate the advancement of scientific knowledge, a new movement that had grown to separate itself from the teaching of Christian theology — by way of having critical analysis to the Bible, both in its historical and interpretational aspects. This situation led to a harsh conflict between religion and science. For this movement, the right theology was the one that was in agreement with scientific facts. Hence, a critical and historical approach to the Bible was deemed as a necessity — something that gave birth to the seeds of secularism in the following decades.

The harsh conflict between the new movement and the supporters of orthodoxy of the church grew into a conviction among the fundamentalists that the conflict was not just another political dispute. Instead, it was deemed as a cosmic confrontation between "the good" and "the bad". The fundamentalists were very worried about the threat of an annihilation of their religious base. Hence, they tried to shield past doctrines and practices (*Islam: salafiyyun*) in order to establish a historical legitimacy of their faith.

Along the tension and its dialectical process, there were some characteristics in the Christian fundamentalist movement. At a certain level, these characteristics are important for analyzing the symptoms of Islamic fundamentalism. These characteristics are, among others: (1) stressing the importance of a literal interpretation of religious scriptures; (2) every fundamentalist movement can always be linked to fanaticism, exclusivism, intolerance, radicalism, and militancy; (3) fundamentalism generally emphasizes the separation of religion from such modern philosophy as liberalism and humanism; (4) there is a monopoly of truth in religious interpretation; and (5) a rejection of pluralism and relativism.

From this, we can see a contrast between the movement that criticized the Bible and the movement that opposed the authority of the church with fundamentalism. The latter considered the Bible as a text which is final, sacred, beyond criticism and, hence, closed, whereas the former considered it in a radically different manner, i.e. an unfinished and open text that had to be criticized.

The fundamentalist, in an elementary and scripture-related meaning, can also be attached to a certain school of thought within Islam. For fundamentalist Muslims, any rule, social norm, and principle that is considered unauthentic of Islam (*imported*) or influenced by modernization (*modernized*) has to be abandoned and replaced by the Islamic *Syari'ah* in all of its formality and totality as understood from the text of the Holy Book Al-Qur'an.

Notwithstanding its variety of interpretations and causes, Islamic fundamentalism has a similar theological tendency to that of Christianity — particularly in terms of their attitude towards the texts of the Holy Scriptures and the advancement of science and technology. They also share a similar attitude to the literal interpretation of the holy text — that is, they both deem it necessary to protect the "purity" of the meaning of the holy text.

Therefore, Islamic fundamentalism is not merely a response to what happened in the West, but also the product of an internal strife (inward-oriented) of the interpretation of its own religious doctrines. Indeed, the conflict of the Holy Scriptures in Islam is different from that in Christianity. The root of the fundamentalist movement in Islam can be traced back to the beginning of Islam itself.

The Khawaarij movement — which began to grow at the end of the Ali bin Abi Thalib administration, with its radical and extreme principles — can be seen as a classical fundamentalist movement that influences fundamentalist movements throughout history. The Khawaarij initially supported Ali bin Abi Thalib when he faced Mu'awiyah bin Abu Sufyan. For an arbitrary reason, the group not only deserted Ali later, but also confronted both Ali and Mu'awiyah — because both of them were considered to have committed a substantial sin. The radical step of the Khawaarij was legitimized by the slogans *laa hukma illaa lillaah* (there is no law but that of and by God) and *laa hakama illaa Allaah* (there is no judge but God), which were an elaboration based on QS. Al Maidah: 44 that reads *wa man lam yahkum bimaa anzalallaah faulaaika hum al-kaafiruun* (those who do not establish law based on that which is given by God commit heresy). For that reason, the Khawaarij people did not want to be under either Ali or Mu'awiyah.

That radical theological standpoint was followed also by an extreme and radical political attitude. The Khawaarij people were of the view that those who did not agree with their opinion were considered dissenters (*musyrik*) and could be killed. Hence, it was only their territories — called *daar al-Islaam* — that had to be protected, while other territories — called *daar al-kufr* (*daar al-harb*) — had to be attacked and destroyed. The Khawaarij movement subsequently served as a model of fundamentalist movements, which combined theological doctrines with political actions.

Fundamentalist movements came along with puritanist movements. They both strived to purify Islam from local cultural influence, which was considered a pollution of the purity of the religion. That purity was always oriented towards the past, the first generations of Islam. The subsequent

generations of Islam were always regarded as a symbol of degradation from its era of primordial excellence. Hence, this orientation was always towards the past — when Islam was correctly practiced. That spirit was glorified with such jargons as *al-Ushuuliyah al-Islaamiyah*, *al-ihyaa' al-Islaamii*, and the like, which were seen as a return to the sources of the pure Islam that was brought by the Prophet Muhammad and followed by the first four caliphs.

Modern fundamentalist movements are generally formed in response to the West, although their concern and ideological platforms continue to bear inward-oriented themes. Their attention is paid mainly to at least two major issues. First, they reject secularism of the Western society which separates religion from politics. The success of the West in the secularization process that exudes into Islam is considered dangerous, because it can threaten Islam as a religion that deals not only with matters of heaven (*ukhrawi*), but also those of the world (*duniawi*). Secondly, there are many Muslims who wish to have Al-Qur'an and Islamic *Syari'ah* as the foundations of a state. The degradation of the Islamic people in many parts of the world, according to these Muslims, is simply because they do not use Islamic *Syari'ah* as a guidance anymore.

The modernization process in the West, notwithstanding its drawbacks, has been able to transform its societies which are, among other things, characterized by the advancement of science and technology. This progress is qualitatively different from the progress that once was brought about by Islam. This progress has made the Islamic people feel awkward, both in responding to it and in observing their religious doctrines. On the one hand, they witness a progress which is not entirely based on religion. That progress is even happening when religion is being pushed away from the public life through a secularization process. It induces resistance in some parts of the Islamic people by putting on an apologetic attitude, while a small number of people try to respond in rational and proportional ways — without losing their Islamic identity.

This apologetic attitude tends to be normative and idealistic. It seems to wish for the ability to address all problems of humanity by adopting, formally and directly, religious doctrines as written in the holy book. This is the reason that this attitude tends to disregard reality — hence it is often seen as pejorative and negative. Even when they see reality, whatever they see must be succumbed to the orthodoxy of religious texts. This attitude is taken as a defense mechanism to protect them from outside threats, challenges, and criticisms. Modern fundamentalist movements perceive these outside threats, challenges, and criticisms as being aggressively

applied against them. Indirectly, this kind of perception subsequently stimulates them to launch violent acts against those who are deemed to be on the opposing ideological side.

Nonetheless, this radical attitude based on the aforementioned perception has also been provoked by the discontents with a socioeconomic system deteriorated by the failure of the state to govern its people in an ethical, humane, and just manner. It has also been worsened by a political system that tends to be manipulative — causing frustration among the people. Modern fundamentalist movements construe the democratic system merely as a plan to manipulate, so that the interests of the elite remain protected.

That situation was very real during the New Order regime in Indonesia. During the Suharto era, all sorts of differences had virtually no room — they were even eliminated in order to create a political consensus. There was also the problem of unequal distribution of wealth, which widened the country's economic divide. Hence, when the winds of reform started to blow, the people experienced euphoria. The climate of national politics changed from one extreme to another. Political rights, which were previously cut out, have since been reinstated at once and exercised intensively — almost without limitations. Most of the time, members of the new political elite are busy with power-oriented political skirmishes and do not have enough time or seriousness to think about the improvement of the quality of life of the people — the poor, in particular.

In such circumstances, radical movements seem to find fertile ground. Militant Islamic groups that were silent during the Suharto regime, for example, now find an opportunity to rise and speak openly to the public. The general public cannot deny the difficult social, economic, and political realities that confront them in their daily lives. We can, therefore, see how violent acts have become a trend.

As mentioned earlier, however, not all of the existing social turmoil is derived from a religious cause. If we observe them closely, social conflicts in massive scale that broke out in some regions in recent years were basically caused by political and economic factors. Religion was only taken as a symbol and intentionally manipulated to attract mass sentiments, which were already ripe for violent actions. Hence, conflicts that were actually political in nature had been transformed into religious issues in order to distort the real root causes of the problem.

Therefore, the problem of radicalism in Indonesia is not at all like what it is perceived to be by most foreigners. This problem cannot be approached merely from a religious point of view. Instead, it needs to be understood comprehensively as a problem that is inter-linked and intertwined with

existing problems in the political, social, and economic sectors. It is true that the emergence of fundamentalist groups, particularly among Muslims, is a phenomenon which has the potential to beget a radical spirit and makes it easier to provoke acts of terror. In the context of Indonesia, however, the trend of Islamic radicalism always forms only a very small dot in the big portrait of Islam in Indonesia — mainly characterized by friendly faces and moderate outlooks.

In responding to the problem, it is certainly important to start a process of dialogues which can deliver the consciousness that Islam will never condone any violent acts in carrying out a religious mission. Furthermore, Islam has to be understood as a teaching that has the capacity to respect differences and live in harmony with the other various faiths. Aside from that, it is also very important to create livable social, economic and political conditions for all — which truly reflects the principles of justice and humanity. Then, there should never be anything that can provoke violent acts.

Lastly, it has to be understood that the international media tends to present only the minor face of Islam in Indonesia. It has portrayed an unfortunate image of the religious life in Indonesia. It only provokes the emotion of Muslims, who have ultimately been pushed to the edge of radicalism and, at the same time, distorts the real focus of the problem. Whatever the reason is, it is too difficult to expect that a dialogue can produce a mutual understanding if it is preceded by prejudice or pre-judgement.

Progress in Diversity: Fears and Hopes

Cherie Nursalim

Executive Director, Gajah Tunggal Group (GTG)

> World interest on Indonesia seems like a pendulum swinging from white to black with no grays or the rainbow colors that define the many peoples of a diverse and vivacious culture.
>
> Danny Schechter, Mediachannel

A historic democratic election held in June 1999 with a 96-percent voter turn-out witnessed by the international community marked the sweetest and sturdiest affirmation as 80 percent voted for parties from PDI-P to Golkar to PKB and others that advanced the national aspiration for *Bhineka Tunggal Ika*, which translates into *Unity in Diversity*. And there is much to be proud of in the world's fourth largest populace and archipelago of 16,000 islands split into 27 provinces with hundreds of ethnic groups of distinctive cultures, languages and religions making up the rich mosaic that is Indonesia.

Yet in times of political transitions, much of the diversity that was once the source of strength of this country has been threatened anew. Diversity apparently transforms itself into divisiveness, its unity into disunity.

Indonesia, once an emerging Asian economic tiger under a leadership that charted three decades of steady economic growth, abruptly became the basket case of corruption, volatility, and stagnation. The graphic scenes of violence, demonstrations, and riots shape international perception of Indonesia. And after 9/11 and the Bali Bombing, Indonesia also became typecast as a fertile outpost of Al Qaeda terrorism.

It is tempting for the international community to despair over Indonesia and conclude that the divisiveness will only worsen and drive the nation closer to the brink. Yet this would be underestimating and misunderstanding the very diversity that contributes to the strength of Indonesia. It may be that, lost in all of these broad-brush characterizations, is the real country — one with its great promise and potential as well as its many conflicts and contradictions.

I write as a member of a business family that believes in the country and wants to contribute to its future. I write with an intimate and painful knowledge of the problems and challenges businesses like ours face in Indonesia and the countless subtle rights and wrongs in our institutional arrangements and culture. Yet I retain a passionate conviction about our need to promote tolerance, celebrate diversity, and engage the best that the private sector can offer — that is, its partnership with civil society and the state to reform, rebuild, and renew.

RANDOM WALK DOWN DEMOCRACY LANE

> Leadership is clearly the key for most emerging markets … to rally the elite to behave in a collective self-interest … [and] reorganize society and create institutions that bring maximum productivity and social peace.
>
> IMF Independent Evaluation Office Representative

Whatever one may say about Suharto, one cannot deny that he was a leader. He was arguably not a just or righteous leader, but he made the rules and then made sure that the majority adhered to them. There was a created sense of order and, through a convergence of national and self interests, there was a sense of unity. Divisiveness was controlled and held at bay, though we now confront the unfolding realities that they were often with brutal methods.

In a climate of controlled media and civil society as China, Malaysia and even Singapore, it is easier than what Indonesia's leader presently has to contend with after we opted to turn the republic into an unabashedly liberalized democracy through the *reformasi* revolution.

At the moment, neither government nor business nor global institutions can do right in Indonesia due to a spiral of distrusts set off in the rush to embrace the high ideals of democracy. It is popular to condemn, but condemnation feeds distrust and inaction. Prior to the Bali bombing, it spun into an environment where force and intervention of any form is scorned.

Unfortunately, neither our media nor civil society has yet matured into an effective watchdog or cheerleader for democratic accountability. Restrained for years by earlier regimes, some of their newfound freedom unfolds in ways that threaten the freedom and rights of others. Some are sheets for scandal, with a sensation by special interests spawning suspicion and segmentation.

Instead of transitioning into a path of enlightened democracy to bring forth maximum productivity and social peace, all sectors of our society — civilian and military, business and labor — suffocate in the tight tentacles of a blame-game loop as democracy plays velvet gloves to savvy divisive elements.

The immediate aftermath of revolutions is often replete with stories of gross injustices. It stages as the dangerous twilight between the setting of an old order and the rising of a new when dark and shady forces of anarchy and divisiveness exert their greatest power.

This has been the experience of many countries, and Indonesia is no exception. For instance, Russia — notwithstanding new hopes under the popular leadership of President Putin — has, in its early blind stampede under a shaky banner of democracy, allowed sophisticated and divisive elements to creep in, stifle economic progress, and take over much of the national agenda rendering all sectors today under their expansive shadowy wings. The results are not pretty.

Deng Pufang, who heads the China Disabled Persons' Federation, shared personal tales with me on how even charities and disabled communities in Russia are not spared: " Two successive leaders of the disabled communities I worked with in Russia were killed, one brutally murdered and the other bombed for their moral defiance to bend to these forces."

Another concerned friend who heads a national think tank in the region told me: "In 3 short years, 'uncontrolled' democracy broke up the world's no 2 superpower. And its economy went down an abyss. Interesting lessons for Indonesia on the potholes and booby traps ahead."

At the World Economic Forum's Latin America Summit 2002 on "Strengthening Democracy, Moving towards Social Equality", Latin American leaders from civil society, government, and business identified the deeper challenges for countries in transition: "Recent events in Ecuador, Paraguay, Argentina and Venezuela have put democracy to the test and the question now is whether democracy can survive at all during turbulent economic periods."

Thankfully, the resolve to maintain democracy remains, but all who look at these trends closely cite a need for civil society, business, and government to unite. There is consensus in collaboratively raising consciousness while lowering expectations as "it takes at least a complete generation to produce effective change."

The time dimension is underscored by civil-society representative Melinda Quintos De Jessus, who spearheads Media Freedom and Responsibility in neighboring Philippines during a regional conference:

> There is a world of difference in the environment of press freedom in a democracy that had already celebrated its bicentennial and in one newly-recovered from a corrupt dictatorship … The media explosion erupted overnight. Journalists with no experience were manning the most important news beats. At the same time, the rapid democratization of different countries in the region made press freedom a shared cause across borders. It was hard to overcome the common belief that the press needs only to be free in order for the press to be good … Freedom is only the beginning. It is only the first step in the long journey called democracy.

Abuses by state agencies in their treatment of the media had repressed freedom of expression often in the name of stability for the majority. And it is true; stability is paramount for a developing nation as diverse and populous as ours. But in order to achieve that goal, a healthy democracy needs to count upon a deep self-restraining and responsible press and civil society. Others from the Philippines echoed this concern at the conference, explaining that "because of the tremendous capital requirements and the long gestation period most media need, many social influences, justified or unjustified, besiege the profession" .

To balance these influences, healthy resources are urgently and critically needed to nurture and educate a peaceful and independent civil society that embraces openness and actively engages rather than denounces diverse sectors.

Indeed, with the exception of South Korea — which is pretty homogenous — few emerging markets in recent history that have opted for a free dive into full-fledged democracy have reaped stellar economic progress. Even for South Korea, many insiders there shared concerns that emerging divisive elements increasingly extort and threaten government and business using civil society and the media as a front. During a recent trip there, I met a Korean political analyst and journalist representing a foreign-owned entity who expressed disgust over forces at play within her own profession:

> It's democracy out of control. They hold many Korean businessmen and political leaders hostage. They demand privileges from politicians and threaten companies to pay or advertise for them; otherwise they launch negative publicity attacks.

In Indonesia, the media is still soul-searching. Meanwhile, we have had four changeovers of our government in five years, and stability still appears some distance away. Our president Megawati recognized the challenges of managing a deeply distrustful climate in her August 2002 address:

> It is impossible for anyone at any given time to accomplish this paramount task in such a chaotic situation in which people are suspicious against one another. The democracy that we have established and the freedom of expression that we are now enjoying need to be well maintained and utilized in a civil manner, so that the democracy and the freedom which we have fought for at our utmost will not be stained, or will not even lower our own stature.

In a previous year's address, she urged self-restraint and also recognized the flip side of an uncontrollable democracy:

> The continuation of democratic life is indeed contingent upon the readiness of all quarters to obey the law, to respect the people's interests and, better still, to impose self-restraint. Should it not be the case, it would be rather difficult to distinguish between democracy and anarchy.

DIVISIVE ELEMENTS AS PRIMARY HURDLE TO PROGRESS IN DIVERSITY

In the *United Nations Support Facility for Indonesian Recovery (UNSFIR) Report on Social Violence in Indonesia 1990-2001*, the number one incident of mass violent deaths cited was the May Riots of 1998, claiming the lives of 1200 largely ethnic Chinese minority across Jakarta, Solo, Medan and Padang. The destruction of property also ranked the highest with over 5,000 buildings burnt and thousands of homes and vehicles damaged.

My own relatives were among those victimized by the terrifying frenzied rampages that remain vivid in our minds. Families and friends had their shops and homes destroyed. My aunt took refuge at our home after she was robbed of all her valuables and saw her home burnt to the ground. Shortly afterwards, she died of a heart attack because the trauma was too intense, leaving behind her physically paralyzed husband.

What we learned later was that these riots unveiled a chilling pattern of orchestrated agitation to reap maximum psychological impact through the sowing of distrust and dividing the ethnic communities.

The New York Times of 10 June 1998 catalogued the horrific premeditated crimes:

> The reported attacks ranged from the degrading and humiliating to the horrific; from women who were made to strip and perform calisthenics in public to women who were repeatedly raped and then thrown into the flames of burning buildings.

> The reports involve girls and women ranging in age from 10 to 55 … Some were gang-raped in front of a crowd in the Chinese commercial district of Glodok. Some of the rapists said, "You must be raped because you are Chinese and non-Muslim."
>
> … organized groups were involved in instigating attacks of arson and vandalism aimed largely at ethnic Chinese neighborhoods during the rioting. This evidence is based on reports that groups of men arrived simultaneously at various targets in the city with gasoline bombs and other weapons and initiated the violence.

Overwhelming eyewitness accounts described the leading perpetrators as fierce tattooed men or solidly built men with crew-cut hair or military boots. Some even disguised themselves in high-school uniforms being trucked into the targeted sites to spearhead destruction and arouse terror. Others recounted how they had been "recruited, briefed, paid and transported by unidentified men", who provided them with "stones and gasoline bombs".

Since the May Riot in 1998, Indonesians of Chinese descent continue to live with the scars of a wrangled dilemma for the love of the country in which they were born and upon which they have set their futures. All have lived with silenced tears as there was no aggressive official pursuit of the mass murderers and rapists after these atrocities. Instead, there appeared to be systematic destruction of evidence and threats to human rights investigators.

This "riot" impacted negatively the Indonesian economy as described in World Bank practitioner Lloyd Kenward's book, *From the Trenches*:

> The early months of this crisis triggered a race-related flight of "financial" capital, which added significantly to the depth of the plunge in the rupiah. The later rounds of rioting triggered flight of "human" capital. Large numbers of able business persons … left the country … This human capital flight looks destined to have more long-lasting results, essentially delaying the timing and strength of recovery.

A profoundly crucial lesson to draw from this grievous ordeal is that these obscene acts of violence are not the work of the average Indonesian. I belong to the many who — having ourselves been painful victims — realize that there is another danger that has not been adequately acknowledged.

There exists among us sophisticated elements with deep resources and expertise in the art of promoting polarization and encouraging division. They are adept at conducting provocation of myriad forms from paid demonstrations in the name of reform to violence in the name of religion

or race. Whilst we cannot fathom the shadow politics that abound, most ethnic Chinese hold no grudges against their fellow Indonesians.

Our family's experience is illustrative. We have been supported and healed by our indigenous Indonesian friends, family, and employees of both Islamic and Christian faiths, who shower us with their partnership and solidarity.

Other spiraling violence recorded in the UNSFIR database reveal Malukus accumulating the highest toll of 2100 deaths followed by Aceh at 1260 over the period of 1990-2001. Evidence again abounds that this violence was in fact instigated where peace once prevailed as in the Spice Islands amongst the diverse ethnic and religious groups.

The late Professor Lukman Sutrisno in 1999 wrote extensively about these divisive "provocateurs" and their sophisticated staging of innocent settings preceding heightened tensions:

> As for the Maluku riots, both General Wiranto and Maluku police chief Colonel Karyono have suggested that they were instigated by provocateurs. It is common knowledge that provocateurs have played a key role in fanning riots in other places like Banyuwangi, Ketapang and Krawang …
>
> … 862 preman (political gangsters) arrived in Ambon shortly before the riots, which would suggest that provocation has played a major part in the on-going Maluku tragedy. The activities of the provocateurs appear to follow a pattern …
>
> They create an incident that could be anything from beating up someone in the street to burning a house in a village. Information is then quickly disseminated to the affected community and hugely inflated on the way so as to have the greatest possible impact.
>
> During a visit to Ambon by two (Human Rights) observers … there were no fewer than four provocations. Two involved minibus passengers being beaten up by the driver and the other two involved office workers being attacked with machetes by unidentified persons. It is difficult to avoid the conclusion that this was a show of force, to scare off the observers …

Scrolling down the UNSFIR list of social violence victims that has expanded in the number as well as regions of social upheavals since 1998, under the Industrial Relations violence, one will find an incident of three deaths on our company's shrimp farm, Dipasena, operating in the Lampung province on the southern tip of Sumatra. Close encounters with industrial violence unmask far more than meets the eye.

CLOSE ENCOUNTER OF THE THIRD KIND

> Surrounded by 200 workers for two days and two nights, four Singaporean managers' living nightmare on Bintan Island
>
> Front-page headline from Singapore's national newspaper on 25 November 2002

One of the trapped Singaporeans recounted his experience:

> Horrifying. A lifetime ordeal not to be forgotten. We saw amongst the many surrounding us those carrying with them long knives *(parang)*. Paranoid that they will break into the complex, we dared not get any shut-eye.

Industrial violence targeted at foreign as well as local operators has risen along with Indonesia's economic woes and other social violence. In a country with rising poverty and unemployment with "wide disparities between regions", according to *UNDP Indonesia Human Development Report 200*1, "it could take even up to 40 years for some regions to fully attain several (human development) targets." As such, there is a critical need to maintain and incent business operators in these undeveloped rural areas.

Indonesian Chamber of Commerce President, Aburizal Bakrie, told *Harvest International Journa*l the importance of law and order in developing East Indonesia:

> I do believe that there are a lot of things that need to be taken care of, such as security, law and order, the autonomy law, infrastructure … The future of Eastern Indonesia is great, but the Indonesian government should start to work with business … Without incentives, law and order, and the rest, it's very difficult to get people — even Indonesians — to come to the Eastern part of Indonesia.

There are others who share the optimistic view that the future of Eastern Indonesia — and other rural regions for that matter — can be bright, but it will take a lot of time, energy, contributions, and commitment from business, civil society, and government to work together.

Not only does our family share this belief, we also try to contribute in our own small way to the betterment of our communities. My father, Sjamsul Nursalim, was born in the Lampung province into a family that migrated from China in the 1920s initially to Singapore with business operations spanning Southeast Asia from trading and major real estate in Singapore to rubber plantations and bicycle manufacturing in Malaysia to spice exports and rubber re-milling in Indonesia. Educated in the United Kingdom, he returned to Indonesia late in the Sukarno era to oversee our family's business

in Indonesia. He invited Japanese partners (who continue to be our partners after 30 years) to introduce foreign technology to upgrade a bicycle tire outfit into a motorcycle tire plant. The latter grew into the Gajah Tunggal of today as the largest tire-manufacturing producer in South East Asia making its own Indonesian brand as well as off-taking tire production for Pirelli of Italy.

Back in the 1960s, the tire industry was protected and Indonesian-owned companies were restricted from manufacturing automobile tires under strong lobbies by entrenched multinational brands in Indonesia. The cartel was only broken in mid 1970s when many local tire manufacturers entered the industry along with Gajah Tunggal.

In 1979, he invested in a bank under liquidity crisis, BDNI, pledging his inherited shares from the family's Singapore publicly listed firm. Besides injecting funding from abroad, he invited Societe General of France to provide technical assistance to build a sound foundation for the bank. BDNI made a spectacular turnaround and discovered a niche in the import-exports and foreign exchange market winning international business and financial community's trust. With the capital-markets liberalization, BDNI became the highest traded stock in the Jakarta Stock Exchange being consistently one of the most profitable, and before the Asian crisis it was the highest capitalized, with a capital adequacy ratio of close to 14 percent and around US$8b of assets.

An established banker and industrialist in his own right, he was invited in the1980s by the then Lampung governor to contribute to his birth province of Lampung. An initial attempt at bicycle manufacturing, however, failed due to the distribution weaknesses. Still determined to contribute to economic development there, he exhaustibly researched and found an uninhabited swampy terrain deemed "non-agriable" by the World Bank. He decided on a bold gamble in shrimp farming soliciting leading aquacultural experts from abroad. His vision was to develop a sustainable and socially meaningful project out of this wasteland. He vowed to contribute high-value, low-import content exports that could provide livelihoods for many.

As in all his industrial endeavors, he was passionate about educating the uneducated, employing the unskilled, and connecting the disconnected. He personally delved into learning the art and science of shrimp farming. The family invested US$1b in major infrastructure and knowledge-based technologies to transform the waste swampland into the world's largest integrated shrimp aquaculture project. Dipasena's unparalleled quality commanded a global price premium that has earned national-exports-

contribution awards. Skills and micro-credit were imparted to 12,000 of the poorest families so they could eventually own the ponds whilst sharing the collective research on prawn farming, facilities, and logistics enabling access to global markets.

As a result of the investment and care, a community of 100,000 over several generations thrived with free utilities and amenities including 15 medical facilities, numerous schools — from primary to secondary to polytechnic — as well as over 60 mosques/mushollas, two churches and one temple. The environment is painstakingly preserved and monitored with wastewater management; non-slash and burn farming techniques protect the mangrove greenbelt zone along the coastlines. Poetry has been written about the project's success, and ministers from overseas streamed in intent to emulate Dipasena in their respective countries. Many farmers named their children after the farm and my father. That was before 1998.

At the onset of the Asian financial crisis of 1997, BDNI bank, with sound capitalization, was initially but minimally shaken. However, in September my father was victimized and kidnapped. Rumors surrounding the kidnapping followed, raising panic amongst clients and employees that led to severe runs on the bank even months after his release. The rush at BDNI was reinforced by and reinforcing the unfolding raging monetary crisis. Subsequently, it joined many other banks and turned to the Central Bank as lender of last resort. BDNI ran up a large obligation in its repayment to third-party depositors and creditors due to the bank's scale and dollar liabilities in the climate of a rupiah free-fall, bloated by punishing high interests and additional severe penalties imposed by the Central Bank.

What happened then has been reported. Chairman Greenspan of the US Federal Reserve System elucidates it well:

> At one point, the economic system appears stable, the next, it behaves as though a dam has been breached, and water (read confidence) evacuates its reservoir. The abrupt onset of such implosions suggests the possibility that there is a marked dividing line for confidence. When crossed, prices slip into free fall before markets will stabilize.

MODUS OPERANDI OF THE DIVISIVE: DIVIDE GOVERNMENT AND BUSINESS

"Confidence implosion" in Indonesia's context has as much to do with economic factors as the minority but savvy and well-funded divisive

elements who inflame chaos and profit from other people's misery. They incite divisions within government, business and even global institutions.

Early in the crisis, allegations started to be thrown at the corrupt government. Sophisticated measures were undertaken by few officials including change of bank-auditting criteria to try, intentionally or inadvertently, to scapegoat and incriminate the private bank owners for mismanagement and abuse of public funds and blaming them for the crisis. In reality, 80 percent of the liquidity support funds were supplied to banks whilst under state management, or to state banks with mostly dismal recovery rate compared to private-sector banks. Yet, the overwhelming blame has been centered upon the minority private-sector banks. They were asked to repay the funds, and a travel ban was further imposed upon the shareholders and senior management in April 1998. This fate was shared by the majority of private bank owners with the exception of the non-ethnic minority and a few with exceptionally powerful connections.

Well orchestrated for blackmail, demonstrations were also rampant outside the homes of the bank owners. Rent-a-mobs waved angry placards. Unaware of the details of the issues, the international community and economic organizations, especially the IMF, also joined the chorus against the local private sector in the country, employing generalized terms as "crooks", "bad debtors", etc, in their official statements.

Massive liquidity support funds were injected into the banking system by the government in order to avert a complete banking meltdown. Major shareholders of private-sector banks, though legally publicly listed, were held personally liable. Thus my father was demanded to repay the entire liquidity support for BDNI with his private assets.

Having little choice, he agreed and settled the bank's full obligation by transferring his major industries to the government. They signed a landmark Master Settlement Acquisition Agreement (MSAA) with the blessing of the State, the World Bank, and the IMF. International lawyers and bankers reviewed the entire agreement for the sake of transparency. In the master settlement, my father was granted a Release and Discharge signed by the Minister of Finance at the closing of the agreement in May 1999.

Over the years, more assets have been demanded, and certain officials even turned around to question the legitimacy of the MSAA with misinformation planted in the public media. Many smaller private-sector obligors who had no other private assets to repay their banks' liquidity support as a result of the crisis faced worst fate. They were thrown into jails, and some were even asked to sign three generations of personal guarantees. Whilst there appears to be less legal discrimination against the

private sector, attempts by government to restructure with previous owners (as in Latin America or as in commercial debt cases) were contentiously shot down. To this day, the fate of several hundred private-sector cases awaits the government's deliberation due to latent distrust toward business owners.

James Castle who heads the International Chambers of Commerce surmised that Indonesia is suffering "the largest seizure of private-sector assets in the history of the world since Communism" in the aftermath of a financial crisis uniquely concocted with social and political events.

Our Dipasena aquacultural farm in Lampung province experienced the divisive elements' orchestrated infiltration. Kidnappings, lootings, burnings, and threats would befall those farmers who did not participate in their violent orchestration staged as farmers' voices. My father escaped death a few times and was once under intensive care after being beaten up. Several lives were lost, including those who were close to us. They were dragged out of the medical facilities and severely disembodied. To this day, many of the perpetrators roam freely in the area, even planting explosives on operational sites. It was impossible to operate in such a dangerous environment besieged further by an inscrutable governor intent to ban exports of the firm. This is to the detriment of the tens of thousands of families, dependent on the viability of this project for survival as well as the loss of valuable export incomes for the country.

Amidst the sea of distrust against business operators already beleaguered by financial and security challenges, it did not help that certain officials publicly slandered my father of fraud by "offering the government an empty shrimp pond company in Lampung". These officials never even set foot on the farm to witness its massive world-class infrastructure and social benefits.

Thankfully, there remained principled officials such as the Coordinating Minister of Social, Political, and Security Affairs, Bambang Yudhoyono, who stated in a regional assembly:

> I value Dipasena as a national asset … We don't want Dipasena to be closed. There must be an effort to rescue the farm. IBRA should settle all issues so operation can move on … Hundreds of employees were sent home … they confessed they had to leave their staff compound because they were sent away by some unknown persons.[1]

1 *Koran Tempo*, 28 October 2001.

THE DIVISIVES' TRUMP CARD: "CATCH THE CATS, LEAVE THE MICE"

As the pendulum swung from white to black, the private sector in Indonesia which was once the country's industrialization engine — having contributed to its economic growth and welfare creation — was overnight typecast as the corrupt crony capitalists who ruthlessly robbed from the nation's poor. Government officials with any courage to speak up for local businessmen or who took steps to resolve stalemates were immediately accused of being cronies. Every step of the way, they were opposed by shrill critics full of righteous piety and passionate intensity who took the higher moral grounds in censuring the private sector. They then called for the capture of big-fish businessmen and seizing assets from their private businesses ostensibly in the name of the poor. In the process, they sowed seeds of mistrust amongst government, business and the public.

Local businessmen are particularly blamed — and even hated — for the large bank bailout and private-sector debt. Few noted that whilst private-sector debt was large compared with the government's debt (which, to be fair to the Suharto regime, was actually well managed), the former was largely due to positive private-sector expansion of the corporate sector, with a high return on assets, healthy repayment rates, and relatively low debt-equity ratios by companies before the crisis.

Hal Hill, in his book *Indonesian Economy in Crisi*s, did a most comprehensive comparative survey o*f* pre-crisi*s* listed corporate performance. He notes:

> On all these indications, Indonesia was comparable to its Southeast Asian neighbors, and much superior to Korea and Japan … The incidence of non-performing loans and corporate insolvency rose dramatically because of the collapse of the exchange rate (combined with the absence of hedging) and the real sector. Banks experienced runs because of a general loss of confidence in them from late 1997 … *many well-run and professional banks and corporate*s were pulled down by these economy-wide factors which were largely *beyond their contro*l **—** *a case of domestic contagio*n.

Various studies critical of Indonesian corporations as a precipitating factor to the crisis were flawed as they either used post-crisis exchange rates or lumped bank debts with corporate in inconsistent ways tipping the private-sector leverage ratios.

Against this backdrop, those businessmen who struggled to create real industries in the most competitive spheres, sustaining value and welfare for the many get lumped along with those who were rent-seekers benefiting

from anti-competitive practices, favored licenses or concessions distorting the real market.

Aristides Katoppo, the respected publisher of *Sinar Harapa*n papers and promoter of peaceful journalis*m* and conflict resolution, spoke out on his concern of the indiscriminate McCarthism by certain officials:

> Unfortunately there are one or two cabinet ministers who seem to have a score to settle and they use every opportunity to even call these businesses black conglomerates without making any distinctions. Of course for the people who lose their jobs or are uncertain about the future, they are easy to be aroused …

He further commented on the rapidly transitioning journalistic climate:

> In the aftermath of Suharto's departure, constraints (on media) were taken away and whether it was to play catch up with a vengeance, the press of course started like dogs who were not barking and then suddenly allowed to bark … barking all over. Not making a distinction whether it was a thief or a neighbor. Although I've been steadily fighting for freedom of expression and freedom of the press … now there is a lot of misinformation and disinformation *[sic*] in the press.

This poisonous baiting is played against both government and business. It is framed and orchestrated to distract and divide. Insecure about their own careers and political fates during a time of transition, officials and legislators often dare not speak up for local business (nor against terro*r* disguised as labor unions, or religion, or nationalism), even in cases clearly justified by law and facts. It's a perverted climate perpetuating policy inaction and legal ambiguity as many are trapped and stagnate in insecurity under an unrelenting vicious finger-pointing spiral.

This situation has created an imbalance putting business on the defensive and frustrated. Even though foreign business largely escaped this chaotic witch-hunting, they too suffer under an irrational distrustful and extortive climate to the plight of business at large. A Japan External Trade Organization (JETRO) representative said at a UNSFIR Industrial Policy forum on 21 November, 2002:

> You speak of welfare for Indonesian labors. In fact Indonesian laborers' welfare belong to the most protected and privileged in the free world. JETRO has submitted over 100 points of grievances by Japanese business operators (ranging from labor, security, costs issues) to Indonesia government. We ask: "What about welfare for business owners?"

Shortly afterwards, Sony announced it would withdraw from its plant in Indonesia, retrenching 1,000 workers.

> "Even small business suffers," laments Ms Usman, a devout Muslim with a post-graduate finance degree from Australia who runs a small event-organizing business. "It's no longer just the big ethnic-Chinese business, we have problems, too. Not only do we not receive support from the State, we get unjustly harassed on taxes.

Unfortunately, the plight of businesses — large and small, foreign and local — translates into long-term costs for the real sector, exacerbating the fragility of our national stability and at the expense of the very poor the divisive purport to speak up for.

President Megawati, whose family had been political victims, once expressed her willingness to forgo the past in order to move forward. Our Minister of State Enterprises, Laksamana Sukardi, was also reported to have said that "he's willing to be pragmatic. His job is to kick-start the economy, not to conduct a witch-hunt against businessmen."

However, the divisive sector challenges such a stance in the name of public accountability and justice. Self-styled idealists then jump onto this bandwagon, rarely assimilating all empirical evidence that demonstrates that, however corrupt the market system may be, the state and legal systems will likely be more abusive and corrupt in *a* transitiona*l* phase.

If cats were to denote the productive sectors and mice the crimes of terror, incitements, and plagues of joblessness, then in Indonesia, the divisive unswervingly seeded and fanned a climate of "Catch the Cats, Leave the Mice". Today, the diverse sectors in Indonesia appear trapped by a perception loop that encourages more division amongst sectors than cohesion. We are all losers.

I alluded to these dueling forces in my World Economic Forum presentation on "China & Asia: Common Future, New Expectations", delivered in Beijing on 9 April 2002.

> There is a tussle in much of our developing world between two opposing forces. One wants for progress economically, engaging their nations as productive members of the global community, such as forces of international trade and commerce. The other wants to drag their countries and people into the Dark Ages in a state of poverty, misery, distrusts and anger. These emotions and people are then mobilized and exploited for their own ends, be it in the name of religion, nationalism, democratic reform, or race.

RESILIENCE TO DIVISION: UNITY IN DIVERSE SECTORS

As the world's largest Islamic community, the risk of divisive elements taking over casts a somber threat for our country and world at

large. Albeit a small minority, some may be linked and have expressed support publicly for international terrorist networks polarizing our peaceful nation and tainting the religion of Islam.

Historically, Indonesia's Islam is to me the most tolerant in the world. Inter-marriages amongst religious and ethnic groups are prevalent in spite of remnants of legal and religious restrictions. This phenomenon is unheard of in most other Islamic communities, even one as progressive and liberal as Malaysia. My own family cites many such examples of inter-marriages characteristic of Indonesia's intimate bonding by blood and history of diverse ethnic and religious faiths.

Stanley Weiss, founder and chairman of Business Executives for National Security, aptly captures the innately tolerant spirit of Indonesia:

> The world's most populous Muslim nation remains the face of moderate Islam. More than 200 ethnic groups speak some 300 odd-languages, but still wave the national banner of "unity in diversity". The music-loving Indonesians, led by the female President Megawati Sukarnoputri, are unlikely to embrace a Taliban-like Islamic state anytime soon.

Indeed, a proposition for *Syari'a*h law was thrown out of the Indonesian parliament barely months before the Bali tragedy in keeping with the spirit of *Pancasil*a, the national emblem of "*Peace in diversit*y". As our government earns praises for responsible fiscal management, hard-won regional peace accords, dissolving a legacy of military involvement in parliament, and forging ahead with a breakthrough into direct-election systems, hopefully the emphasis is more on respect for systems than leadership as Indonesia moves forward. Diverse sectors are making separate quiet headway in our early transition.

The media and civil society are burgeoning without central intervention serving increasingly as foundations and fora for freedom of ideas and opinions — even evolving as a watchdog. Notwithstanding a bitterness that lurches within as resources sponsoring some of the media's and civil society's growth may taint of the divisive, the latter's nurturing and liberalization symbolize the sweetest fruit borne out of Indonesia's aching shift to democracy.

Business sectors have painfully learnt from their past mistakes and also heightened awareness for social responsibility, corporate governance, and charted palpable economic progress in spite of tantamount challenges in a climate of insecurity and persecution.

Even such global institutions as the IMF are moving in the right direction since the onslaught of the Asian financial crisis with a more objective local

representative in place and the permanent setup of an IMF Independent Evaluation Office.

No doubt all productive sectors stand to confront an uphill battle, particularly as we count down toward election year when organized demonstrations, violence, and riots tend to escalate and dominate the scene. A peaceful election process is paramount for Indonesia as it is still undergoing a tempestuous but doubtless unerring process toward democracy after the demise of Suharto. It is an inevitable fate not least in light of our country's own traumatic experience where most atrocities were hidden until recently under a tightly information-controlled regime. Yet, it is a fragile fate as today's global landscape harbors minority divisive elements that threaten to derail any peaceful development that is underway in a progressive democracy further undermine efforts to balance the myriad of demands upon a diverse but united nation such as Indonesia.

Away from the headlines is the silent majority of Indonesians who are vying for the emergence of a stable, democratic, and prosperous Indonesia. Most of this silent majority is colorblind when it comes to race, religion, ethnic origin, or station in life. We are not given to the misplaced idealism that governs much of the decisions involving poverty eradication and education for the populace.

I recall World Bank Country Director Andrew Steer's valuable assessment that "shaping civil behavior and building trusts are essential (for policy implementation to be effective) even if there were correct legal frameworks in place." We are working towards conditions when all the diverse sectors in Indonesia can leave behind their insecurities and biases. I look forward to a time when we would be putting our heads together instead of agains*t* one another to come to terms with our realities, problems, and possibilities. I harbor a faith that with objectivity, professionalism, and a concerted effort to engage, learn from, and unify with other productive sectors, we may wrestle out of a vicious blame-game loop to regain our democracy from the tentacles of the divisive.

Already, there exist symbolic and steadfast acts such as those by religious leaders Hashim Muzadi and Syafi'ie Ma'arif, who deployed 20,000 Muslims to protect churches in collaboration with local security over Christmas 2002. The expedient investigations with joint international alliance post Bali bombing to eradicate terror cells across the archipelago has restored fragile faith in our civil apparatus. It is a *cri-de-coeu*r of the silent majority to demonstrate to the world that Indonesians are quintessentially peace-loving and want for progress in diversity. All we need is a helping hand from one another to stabilize and pull ourselves

together and open our eye*s* wide in our random walk down democracy lane.

Indonesia's evolution towards our new dawn is gracefully captured by Satish Mishra of UNSFIR Indonesia:

> Indonesia is engaged in a long and difficult journey. The end of this journey is to turn a dictatorship into a democracy. It is to turn a patrimonial and outmoded form of cronyism into a competitive rules-based economy.
>
> This transformation is nothing less than a metamorphosis of a caterpillar into a butterfly. The pessimist sees only the mangled remains of the caterpillar. That is surely one part of the picture. There is, however, another. If one looks closely, one also observes the emerging wings of a butterfly.

Part 3

ECONOMY

Indonesia's Monetary Policy after the Asian Financial Crisis of 1997

Anwar Nasution
Senior Deputy Governor, Bank Indonesia

INTRODUCTION

This chapter analyses the monetary policy that has been adopted in Indonesia since the beginning of the twin — economic and political — crisis of 1997. Monetary policy, under the current IMF program, has three interrelated components, namely: (1) a free floating exchange rate; (2) inflation targeting; and (3) bank restructuring. The economic crisis forced Bank Indonesia in July 1997 to abandon the managed floating exchange rate system — with a narrow band — and to move to the floating system. The switch from defending the exchange rate level to protecting the level of its external reserves also changed the anchor of monetary policy from exchange rate targeting to inflation targeting. Such a monetary policy, combined with a fiscal policy of maintaining the primary budget surplus to at least 1 percent of the annual GDP, also helps to reduce the stock of both public and private debt.

Formulation of monetary policy has become more difficult because of fiscal distress and the fragility of the banks and their customers, the corporate sector. As a result, the three components of monetary policy may be in conflict with one another. Taming inflation and defending the exchange rate require a strict monetary policy that may increase interest rates. In contrast, the financially distressed banks and corporate sector require credit expansion and low interest rates. The low interest rate and the appreciating rupiah also help to reduce the fiscal burden as the government is now heavily in debt. A large portion of the public domestic debt, mainly issued to recapitalize the financially distressed banking system in 1997 to 1998, is sensitive to inflation rate, interest rate, and exchange rate movements.

Effective monetary policy requires a healthy banking and financial system because, at present, it is the core of the financial system in Indonesia. The system is also the principal source of external financing for the corporate sector. The formulation and implementation of monetary policy have become more difficult because of the social and political instability.

The autonomy program that changes fiscal relations between central and local governments affects not only the budget of the central government, but also monetary variables including supply and demand for money. Costs of production and distribution rise as local governments use the newly acquired power to make the licensing system more complicated and to raise effective tax rates.

FORMULATION AND IMPLEMENTATION OF THE MONETARY POLICY

In January of each year, Bank Indonesia announces the basic guidelines of its monetary program for the calendar year. In line with its international commitment as shown in the Letter of Intent to the IMF, the program defines an indicative non-binding specific range of the inflation target for that year. As the year progresses, Bank Indonesia updates its forecasts of inflation for the year. By comparing the target with the updated forecast, Bank Indonesia decides whether to tighten or loosen its monetary policy. As an illustration, the original target for core inflation for the year 2000 was in the 3 to 5 percent range and was later revised to the 5 to 7 percent range. The original target for core inflation for the year 2001 was set at 4 to 6 percent and was later adjusted upwards to 7 to 9 percent. As shown in Table 1, the actual Consumer Price Index (CPI) inflation rates for 2000 and 2001 were, respectively, 9.4 percent and 12.55 percent. The target for 2002 has been shifted to a CPI inflation rate in the 9 to 11 percent range.

The rationale for having a formal quantitative inflation target is the perception that over the long run, monetary policy can determine the economy's inflation rate but cannot determine the level of output or employment (Friedman, 2000). For a number of reasons, however, Indonesia has not adopted full-fledged inflation targeting as the nominal anchor of its monetary policy. The first reason is that inflation in Indonesia is not only directly affected by its monetary policy, but also very much influenced by other factors that are beyond the direct control of Bank Indonesia. These other factors include capital flows, exchange rate movements, changes in minimum wage legislation, and external shocks to both aggregate demand and supply, including terms-of-trade changes, and the realignment of major currencies. The primary and agriculture sectors make up over 50 percent of Indonesia's GDP, for which prices are set in international markets. The oil related sector alone contributes 20 percent to its GDP. Volatile capital inflows and outflows make exchange rate

management more difficult. Major components of the CPI are volatile and some of the prices are either administratively set by the government or subject to the vagaries of international markets. As a result, the inflationary process in Indonesia is still uncertain and subject to substantial volatility. Moreover, in such an emerging economy as Indonesia, inflation is not very responsive to the incremental changes in monetary conditions as the financial market is still in the early stage of development and the banking industry is in distress. Judging from the asset and branch network, at present, the banking industry is the core of Indonesia's financial system. Because of this, actual inflation may deviate widely from the target range, and it is difficult to predict both the magnitude and sources of forecasting errors.

On a technical level, inflation targeting, in its decision-making scheme, requires a lot of information on the financial markets, public finance, labor markets, product or goods and services markets, and the output gap that is not readily available in Indonesia. Modeling the inflation process in this country is difficult as the economy is subject to frequent supply and demand shocks both because of natural causes as well as man-made problems, both of domestic and foreign origin.

Having defined an inflation target range, Bank Indonesia composes its monetary program based on three governing principles and using three principal monetary instruments as shown in Table 2.

The first principle of the monetary program is to control the growth rate of base money, so that it equals the demand for base money. Under the IMF program[1] , Indonesia set the target annual growth rate of base money, in a range of between 12 to 18 percent from 1998 to 2002 (Table 1). The monetary base target can be interpreted as a link between the operational rule and the inflation target. McCallum (1989 and 1999) and Hall and Mankiw (1994) develop an implicit rule based on the monetary base for nominal GDP targeting. With the assumption of neutrality of money, the price level is simply the ratio of the nominal income target to the equilibrium level of real income. A McCallum rule is an alternative to the rigid Friedman

1 On 5 November 1997, the IMF Executive Board approved a 3-year stand-by arrangement with Indonesia equivalent to $10 billion (490 percent of quota). Approved on 25 August 1988, the extended fund facility (EFF) was replaced by New Extended Fund Facility (New EFF) in January 2000. In addition to the IMF credit line, the World Bank and the Asian Development Bank pledged $8 billion. Other creditor countries pledged an additional $18 billion as a second line of defense credit facilities. The IMF program has been extended further until December 2003 and the latest Letter of Intent was signed on 11 June 2002.

rule with a feedback rule that includes trend growth in real GDP, trend growth of the inflation rate, trend changes in the velocity of money and cyclical fluctuations in real GDP. (For a more detailed version of the McCallum rule, please see Appendix.)

It should be noted, however, that the central bank can only directly control its domestic credit, the domestic component of the monetary base. To empower the central bank in achieving the domestic credit target, the new Bank Indonesia law was enacted in May 1999 granting the central bank full autonomy to control all of its credit operations. Credit operations of Bank Indonesia have been sharply reduced as the new law bans the central bank from financing the government budget deficit[2] and terminates its role as an "agent of development." In the latter capacity, Bank Indonesia performed quasi fiscal operations by providing financing and guarantee for both government credit programs and its own subsidiaries. In the past, Bank Indonesia circumvented its own tight monetary policy by providing credit to its bank and non-bank subsidiaries. The present law requires Bank Indonesia to divest all of its subsidiaries and to end such practices.

Bank Indonesia, on the other hand, cannot directly control its holding of foreign reserves, the foreign component of the monetary base. This is because changes in the foreign components of the monetary base are the result of the current account and the capital account of the balance of (external) payments. The central bank does not have direct influence on the components of the balance of payments. Nevertheless, the IMF program sets the floor for international reserves, the foreign component of the monetary base. This limits the use of foreign reserves as an instrument of affecting base money through intervention operations in the foreign exchange market. Strict application of the first rule would entail that Bank Indonesia passively accommodate changes in the demand for base money. In doing so, Bank Indonesia would on occasions satisfy a demand for money consistently with an inflation rate higher than that anticipated in the monetary program. To help detect and alleviate such a possibility, Bank Indonesia establishes two monetary indicators: an annual forecast of the daily monetary base and a quarterly limit to domestic credit expansion. As

2 Deficit of the formal budget, during the long period of President Suharto's administration, between 1967 and 1999, was entirely financed by foreign aid and loans preferably official development aid with concessionary terms. Bank Indonesia, however, financed activities of quasi government organizations such as the Logistic Agency (BULOG) that controlled international trade and domestic distribution of a wide range of staple foods.

mentioned earlier, the monetary base forecast can be interpreted as a link between the operational rule and the inflation target. The path for base money is published with certain caveats, using all information available during the test date.

Bank Indonesia also examines the indicators that may yield information about future inflation, such as exchange rate movements and government policies with regard to: fiscal policy, corporate-sector restructuring including privatization of state-owned enterprises (SOEs) and divestment of IBRA[3] assets, prices, and wages. Selling off domestic assets to foreigners induces capital inflows to help finance the budget deficit, retire debts, and close the balance of payments gap. State-vended products represent a significant portion of goods and services in the CPI. The economy is also subject to external shocks of both domestic and external origin. The dominant share of agriculture and other primary-commodities producing sectors, notably oil and natural gas, in the economy makes it more sensitive to the vagaries of weather conditions and developments in international markets.

Another accessory of the first rule in the monetary program is the establishment of limit to the central bank's credit expansion, the domestic component of the monetary base. As was pointed out earlier, Bank Indonesia is, under the present arrangement, prohibited from financing the government budget deficit as well as from refinancing the credit program. Under the present Law of 23 of 1999, Bank Indonesia credit to commercial banks is mainly limited to intra-day overdraft facilities. Bank Indonesia may also provide a lender-of-last-resort facility to prevent bank runs, but this has not been used since its usage requires a backup of adequate collaterals.

The second principle of the monetary program in Indonesia allows Bank Indonesia to adjust its monetary policy when it faces unanticipated events. The central bank uses the level of excess reserves of commercial banks as the main signal for the direction of monetary policy. The mandated reserve-requirement ratio and the minimum have never actively been used in Indonesia for achieving three objectives of the monetary and fiscal policy. The primary objective of these regulations in Indonesia is to serve as a prudential function. They have not been used to serve as instruments with which to affect the capacity of banks to generate demand deposits and loans and hence money supply. The statutory reserve requirement, which is similar

3 IBRA — Indonesia Bank Restructuring Agency — was established on 27 January 1998. IBRA was created to oversee the disposal of assets of distressed commercial banks that received liquidity supports in the midst of the crisis from Bank Indonesia.

to an inflationary tax for holding a non-yielding reserve requirement, has also not been used to help finance the deficit of the public sector at large. On the contrary, the reserve ratio for rupiah deposits was reduced from 15 percent to 2 percent in October 1988 and raised to the present level of 3 percent in December 1995. The increase in reserve ratio for rupiah deposits in 1995 was accompanied by a reduction in the ratio for deposits in foreign currencies from 5 percent to 3 percent and eliminated discrimination of reserve ratios between deposits in domestic money and that in foreign currencies.

There are three principal monetary-policy instruments available to Bank Indonesia. The first instrument is open-market operations, or selling and buying SBI (*Sertifikat Bank Indonesia*) — Bank Indonesia owned certificates.[4] Sales of SBIs contract the monetary base and purchases increase the monetary base. To keep the monetary base constant, Bank Indonesia reduces (increases) its domestic credits in the case of increases (decreases) in the monetary base induced by the sales (purchases) of SBIs by the central bank itself. (This is called sterilization operations.)

In the case of Indonesia, through agents, the general public is allowed to buy SBIs. As a result, through this instrument, Bank Indonesia competes with commercial banks in mobilizing funds from the general public. The government has issued bonds amounting to Rp646 trillion (roughly equivalent to 50 percent of Indonesia's GDP in 2000) for financing its bank-restructuring program. The use of government bonds for open market operations is, however, very limited because of the shallowness and narrowness of its secondary market. The government began to float, short-term Treasury bills in December 2002 with an initial issuance that amounted to Rp2 trillion. At present, SBIs account for 75 percent of the total monetary instruments available to Bank Indonesia for open-market operations.

The second instrument is, on a limited basis, the intervention in the foreign exchange market. Sales of foreign assets contract the monetary base and purchases increase the monetary base. To keep either the monetary base or interest rate constant, the central bank reduces (increases) its domestic credits in the case of increases (decreases) in the monetary base induced by the intervention in foreign exchange markets. This type of policy is called sterilized foreign exchange intervention. The principal objective of Bank Indonesia's intervention in the foreign exchange market, under

4 The SBI was reactivated in 1984 as a monetary instrument for open market operations.

the current free floating exchange rate system, is not to target the exchange rate, but to smooth out its movement.

The third instrument is the intervention interest rate, i.e. the rate at which Bank Indonesia is prepared to borrow from banks to absorb their excess reserves. By adjusting the level of the intervention rate, Bank Indonesia affects banks' decisions on lending money to it.

The third principle governing the monetary program in Indonesia is to improve its transparency, governance and accountability by keeping the public well informed about the rationale and direction of its policy, as well as the timing and use of instruments to achieve policy targets. To this end, Bank Indonesia is required to announce publicly the basic guidelines of its monetary program, inflation target at the beginning of the calendar year, present quarterly and annual reports to the Parliament, publish reports on the implementation of its monetary policy, and organize active public-relation activities. The key reason behind this is that the implementation of a more effective and transparent monetary framework will help guide and manage public expectations.

During the crisis years of 1997 and 1998, the actual growth of the monetary base was consistently higher than the original targets (Table 1). The monetary base grew by 61 percent in 1998 as Bank Indonesia provided liquidity support to financially distressed banks. This, combined with the sharp depreciation of the rupiah, drove up the inflation rate to nearly 78 percent in that year. To mop up liquidity, Bank Indonesia sold SBIs and the government instructed some SOEs to switch the placement of their deposits from commercial banks to Bank Indonesia. These measures drove up the interest rate, measured as one-month SBI rate, to 38 percent per annum in 1998.

The "overshooting" of the monetary base target has also been caused by structural changes in both the supply of and the demand for money due to administrative reforms and major changes in the political and social system. Greater revenue transfer to local governments and political instability, for example, increases the demand for currency as substantial portions of transactions in the regions are conducted in cash. The political and economic instability also encourages the use of cash as well as the substitution of the rupiah with hard currencies. The change in the behavior of the public in holding money as shown by an increase in the currency ratio reduces the money multiplier. This negative money multiplier shock increases monetary base as the banks need more base money in order to finance their loan supply. Table 1 shows the money multiplier or the ratio of stock of money to the stock of monetary base or high-powered money. The money multiplier

of the narrow definition of money (M1), which is composed of currency and demand deposits, sharply declined from 1.7 in 1997 to 1.35 in 1998, hit the bottom at 1.22 in 1999, and slowly recovered to 1.29 in 2000, 1.39 in 2001, and 1.46 in 2002. The money multiplier of M2 (M1 plus savings and time deposits) hit the bottom at 5.59 in the year 2000. The rise in the money multiplier indicates the shrink in the reserve deposit ratio held by the commercial banks as well as the decline in the currency deposit ratio or the ratio of the public's holdings of currency to their holdings of deposits. The commercial banks hold reserves to meet the demand for cash by their customers and check payments made by their customers, which are deposited in other banks.

The sharp decline of the inverse of the income velocity of base money, or the ratio of the stock of high-powered money to GDP, from 11.81 in 1997 to 9.32 in 1998, was mainly due to the rapid growth of the stock of base money for financing the financially distressed banks in 1997 to 1998. In contrast, the inverse of the income velocity of both M1 and M2 dramatically rose in 1998. The latter indicates the decline in the demand for real balances due to the increase in the interest rates, the decline in real income in 1998, and a slow recovery of economic growth since then.

INFLATION RATES

The decrease in the growth rate of the money supply and its stability at a low level since 1999 has reduced the inflation rate to 2 percent in 1999, from 77.6 percent during the worst year of the crisis, 1998. Inflationary pressure, however, has been rising recently due to a number of factors. First, as mentioned above, pressures arise from government policies to raise administered prices, in particular, as a result of reducing subsidies on state-vended products such as energy (fuel and electricity), food, and other basic necessities. At present, the group of goods and services whose prices are controlled by the government accounted for 14.7 percent of the CPI. The government's periodical raising of value-added taxes and mandated minimum wages also contribute to the increase in the inflation rate.

Second, the weak rupiah, under the present floating exchange rate system, breeds higher inflation by increasing the price of traded goods. In other words, inflationary pressure also comes from the passthrough effect of a depreciation of the rupiah. The passthrough coefficient, which measures domestic inflation response to changes in the exchange rate in a proportion was estimated to be around 0.13-0.23 in the post-crisis periods.

Third, periodic increases in minimum wages have also contributed to rising inflation, which reached 9.35 percent in 2000 and 12.55 percent in 2001(Table 1 and Graph 1). The actual inflation rate at 10.03 percent for the year 2002 was slightly above Bank Indonesia's prediction of between 9 percent and 10 percent and within the range of the projection of the Letter of Intent to the IMF (December 2001) between 10 percent and 11 percent. The inflation figure for 2002 was higher than the budget assumption at 9 percent and the World Bank (2001) projection at 8.5 percent.

There are many reasons for the stubbornly high devaluation passthrough coefficient in Indonesia. First, greater import penetration, following trade-policy reform, has increased the influence of import prices on the domestic general prices of goods. The ratio of net imports (imports less exports) had increased from 0.5 percent in 1990 to 1.3 percent in 1995, and 9.9 percent in 2000. As a result, import prices have a particularly powerful influence on the general prices of goods — whether raw materials, semi-finished goods, or final products. Trade liberalization, through the reduction of tariff and non-tariff barriers, puts pressure on — measured in US$ — the domestic prices of tradeable goods. The price reduction, however, is only a once-and-for-all affair because the increase in domestic market competition from greater import penetration has not been accompanied by significant improvements in productivity. This is because a combination of the slow progress in corporate-sector restructuring, lack of new investment, and a slow improvement of the business climate, have hindered the improvement of the economic efficiency to help strengthen the country's competitiveness in the international economy and the external value of the rupiah.

Second, there is a chronic lack of confidence in the rupiah. This has, in turn, generated a persistent US$ demand and aggravated the depreciation passthrough.

Third, the lack of confidence in the rupiah has also encouraged extensive dollarization of the economy. To protect themselves against a high and variable inflation, market players tie the prices of goods and services to the rupiah-dollar exchange rate, formally or informally, even if it has no import content.

Fourth, because during an economic recession like the one Indonesia has been going through since 1997, companies can still transfer to their prices the higher costs brought about by the rupiah depreciation.

Finally, Indonesia has long suffered moderately high and persistent inflation. Consumers are so used to price-hikes that a steep devaluation is generally accepted as a cause for a large increase in the prices of goods

and services. Over the years, various anti-inflation programs have brought only temporary relief, and inflation remains a major challenge for policymakers.

INTEREST RATES

The interest rate in Indonesia is basically market-determined. Bank Indonesia, however, sets the SBI and intervention rates to absorb the excessive liquidity of commercial banks. The central bank also sets the interest-rate ceiling on deposits under a blanket guarantee scheme. The scheme was introduced on 26 January 1998 to short-circuit runs on banks. The scheme provides cover for both domestic and foreign creditors of all banks incorporated in Indonesia. This replaced the previous scheme introduced in November 1997 that only covered deposits up to Rp 20 million. The guaranteed interest rate under the present scheme is adjusted periodically and calculated based on the average JIBOR (the Jakarta Interbank Borrowing Overnight Rate), but should not be lower than the 3-month SBI interest rate. This interest-rate ceiling prevents weak banks from aggressively bidding up their price and limits the moral hazard inherent in the blanket guarantee scheme. The guarantee scheme was to be effective for at least two years, and its discontinuation to be announced six months in advance. It is to be replaced by a regular deposit insurance scheme. In reality, however, it is very difficult to terminate the blanket guarantee scheme, given the slow progress of the bank-restructuring program, the slow rebuilding of the accounting system, as well as the legal system that protects private-property rights and assures symmetrical transmission of market information.

The money market in Indonesia is highly segmented. This is shown by a significant variation of interest rates between bank ownership in rupiah and that in foreign deposits. In general, deposit rates at foreign banks are much lower than at national banks. Depositors have greater confidence in this group of foreign-owned banks because of their international stature even though they are excluded from the deposit guarantee scheme. State-owned banks (SOBs) are now competing with private banks for funding on an equal footing as the reforms eliminated the special treatment they had enjoyed in the past. The reform relaxes the regulations requiring the public sector (including SOEs) to deposit their funds only at SOBs. This allows migration of public funds from SOBs to private banks. The termination of subsidized credit program ends the supply of refinancing from Bank Indonesia that usually carries low (nominal) interest rates and

low risks. The discontinuation of the subsidized credit program also ends the special treatment enjoyed by SOBs in expanding branch networks that are needed to deliver the credit. The merger of four legacy SOBs in 1998 into the present Bank Mandiri erodes the general perception that they could never go bankrupt as the government would always back its banks. There is no information on the effect of regional autonomy on the interest-rate variations between regions.

After declining from a peak level of around 70 percent at the height of the crisis in mid-1998 to just under 11 percent in May 2000, the benchmark one-month SBI rate gradually rose to 17.62 percent at the end of December 2001 (Table 1 and Graph 1). Bank Indonesia's prediction for the average one-month SBI interest rate for 2002 is 13 percent, slightly lower than the original budget assumption of 14 percent. The interest-rate ceiling for the deposit guarantee scheme mainly affects deposit rates at the commercial banks. On the other hand, the SBI rates influence bank lending rates. Interest-rate policy is also intended to influence the gap between interest rate in domestic and international markets which affect capital inflows and exchange rate movements.

Recent appreciation of the rupiah and the steady decline in the domestic inflation rate have contributed to steady lowering of nominal and real interest rates. Real interest rates since 2000 have steadily declined from between 4 to 5 percent to between 3 to 3.5 percent per annum. Steady progress of economic recovery and bank restructuring that would reduce the cost of intermediation and non-performing loans will contribute to further declines in both nominal and real interest rates. The progress to deepen and enlarge the secondary market for government bonds would also contribute to lowering interest rates. At present, the banks heavily rely on the interbank money market for liquidity as the market for the government recap bonds is still narrow and shallow. This pressure drives up interest rates.

The persistently high interest rates can be explained from different perspectives. Taylor's rule derives the reaction function of a central bank from a simple additive formula based on the actual inflation rate, the real equilibrium interest rate, a forecast of inflation, and estimate of the size of the output gap or the amount by which actual GDP falls short of potential GDP.[5] The Taylor rule is based on the idea that excessive inflation and

5 Taylor interest rate = inflation rate + real equilibrium interest rate + a*(inflation rate – inflation target) + b*output gap. Where: output gap is the difference between actual GDP and potential GDP; a and b are weighting coefficients with a+b=1.

capacity utilization are to be countered by an increase in the interest rate. Full use of existing productive capacity (an output gap equal to zero) and realization of the inflation target do not require changes in monetary policy and the interest rate.

Due to data and structural problems, the Taylor rule is not directly applicable in developing economies (DEs), such as Indonesia. It is not clear how the equilibrium interest rate and the output gap can be calculated. Taylor is more concerned about the aggregate demand, while the economy of a typical DE is constrained on the supply side. As discussed earlier in Section 3, it is not easy to measure inflationary expectations in the Indonesian economy that is subject to various shocks of both domestic and foreign origin. The weighting coefficients are also difficult to measure.

The Taylor rule, however, gives us a broad indication that the persistently high interest rate is due to a combination of the high inflation rate and the erosion of potential GDP due to Asia's twin economic and political crisis of 1997. The progress in economic restructuring and recovery will improve the economic climate and raise productivity and, therefore, will help tame inflation and reduce interest rates.

From a microeconomic perspective, the persistently high interest rate is due to the difficult financial conditions of the banks. One way to see this is to look at the portfolio structure of the banks. At present, the portfolios of SOBs and IBRA banks are mainly composed of recapitalized bonds and SBIs, and only small fractions of their portfolios are in loans (Table 3). A significant portion of their income is also generated from government bonds and SBIs. This indicates that these institutions are mainly operating as a depository of illiquid recapitalized bonds rather than normal commercial banks. As of October 2002, nearly 51 percent of the assets of SOBs were in recap bonds, over 2 percent in SBIs and 35 percent in loans (before provisioning). The figures for IBRA-controlled banks were correspondingly 40 percent, 6.5 percent and 35.2 percent.

To stop bank runs, panic buying and capital flight following the closure of 16 small private banks on 1 November 1997, the authorities bailed out the financially distressed banks and introduced a safety net to protect their depositors and creditors. At the beginning of the crisis, the new capital injection was in the form of liquidity supports and low-cost, long-term subordinated loans or liquidity credit from Bank Indonesia. This was the reason for the massive increase in base money (61 percent) in 1998 (Table 1). The central bank credit was later replaced by government bonds, which amounted to Rp649 trillion in November 2002 (Table 4). With the

injection of the bonds, the banking system is now practically nationalized as the major banks are now, through IBRA, controlled by the government. The availability of public financial support has allowed the banks to exceed substantially the mandated 8 percent CAR (capital adequacy ratio) starting from January 2002.

Around 68 percent of the recapitalized bonds were received by four SOBs, nearly 31 percent by seven banks now under IBRA receivership, and 0.3 percent by 26 BPDs,[6] or provincial development banks. Despite the high CAR, capital-to-total-assets ratio, however, is less than 6 percent for SOBs, around 7 percent for IBRA-controlled banks, and over 8 percent for BDPs. Some banks raised capital through asset revaluations that generated no liquidity. Capital would be eroded if the recapitalized bonds were marked to market. Around 40 percent of these bonds carry fixed interest rates of 10 to 16.50 percent per annum (Table 4). At present, only 28.1 percent of the recapitalized bonds are traded in a very shallow and narrow market, and trading is mainly among the banks themselves. The other 72 percent are held in the investment portfolio of the banks. At the currently high SBI interest rates, the recap bonds are traded far below their par value. The low effective bank capital provides a small cushion for random events, and inadequate liquidity has limited banks' capability either to lend or to lower interest rates. The average loan-to-deposit ratio (LDR) of all banks was relatively low at 35 percent in May 2002. The SOB group has the lowest LDR at 28 percent. This group of public banks controls 60 percent of bank branches and 77 percent of total assets of commercial banks.

The large amount of bonds issued by the government to recapitalize the financially ailing banks drove up interest rates. This is particularly true as the big jump in the demand for funds happened when both the national savings and net international capital flows fell significantly during the crisis. As holders of the government recapitalized bonds, the banks are competing with their customers to absorb the shrinkage of national and foreign savings.

Another approach is to look at the functional costs of the banks. According to this approach, the lending rate of a bank is equal to the costs for mobilizing the funds plus intermediation costs and opportunity costs of the bad debt. Despite massive transfers of bank dud loans to IBRA, the

6 Each of the 27 provinces existed before the crisis has one BPD — *Bank Pembangunan Daerah* (development bank).

NPL (non-performing loans) remains high (Table 3). The gross NPL ratio of banks amounted to over 10.7 percent in October 2002 as compared to over 50 percent in 1998. The reduction in NPL has been possible partly because regulations allow reclassifications after loan restructuring with a corresponding shift of specific provisions to capital. The high NPL ratio of SOBs was mainly due to their weaknesses in selecting credit worthy customers. During the long period of past financial repressions, the main function of this group of banks was to channel the subsidized credit programs to targeted customers. Most of the funding of the credit programs came from Bank Indonesia's liquidity credits, and the risks were assumed by the state. On the other hand, IBRA-controlled banks mainly lent to their own group's companies.

The still relatively high NPL ratio indicates that the impact of the financial crisis is not yet over. The slow decline of the NPL ratio reflects the slow progress of debt restructuring and debt write-off of the corporate sector. This is partly related to the inexperience of the receiving and supervising institutions of the sour loans, such as IBRA. It is also due to the reluctance to restructure and privatize SOBs and non-bank enterprises. Weak and inefficient regulations and foreclosure procedures and an inefficient legal framework (Lindsey, 2000) add to the already difficult problems.

As mentioned earlier, high interest rates create difficulties for banks and their clients that traditionally had high debt-to-equity ratios. At the same time, the high interest rates put pressure of debt-repayment expenditures on the government budget. The relatively high interest rate and low new lending limit the availability of financing to stimulate consumption, investment, and government expenditures necessary for economic recovery.

EXCHANGE RATE

After allowing substantial depreciation of the rupiah during the crisis, from Rp2,450 per US$ in June 1997 to Rp10,375 in January 1998 and to Rp14,900 in June of the same year, Indonesia has been gradually lapsing back into soft pegging by intervening in the foreign exchange market. The rupiah averaged Rp10,200 per US$ in 2001, a depreciation of about 17.3 percent from the average level in 2000 of Rp8,400 per US$ (Graph 1). The consensus prediction by Bank Indonesia, the budget, and the Letter of Intent to the IMF (December 2001) of the average exchange rate for 2002 is Rp9,000 per US$. The Bali bombing of 12 October 2002 negatively affected economic recovery and temporarily depreciated the

exchange rate to around Rp9,200 per US$. The rate has been recovering since mid-November 2002.

The present floating exchange rate system should make prudent use of external reserves to reduce the pressure on the rupiah. There are three main objectives behind Bank Indonesia's intervention in the foreign exchange market. The first is to help reduce exchange rate volatility in order to achieve the inflation target. The less volatile exchange rate also prevents the loss of confidence that may encourage speculation against the rupiah. The second is to maintain an increasing real effective exchange rate as a way to improve resource allocation in the domestic economy and to improve Indonesia's competitiveness in the international market. However, there is no particular exchange rate target in the market intervention. As we will discuss further in the following section, the exchange rate is the most powerful transmission mechanism in monetary policy at present. The third objective is to help control a sharp rise in external-debt obligations of both the private and public sectors.

The continuous depreciation of the external value of the rupiah has been due to a combination of internal and external factors. The internal factors include a very limited supply of foreign exchange in the domestic foreign exchange market due to a lack of both public and private capital inflows and hesitation on the part of exporters to repatriate all export revenues. As pointed out earlier, the negative resource transfer has been increasing since the onset of the crisis in 1997. Because of a continuous deterioration of the business environment, private capital inflows have consisted mainly of the proceeds from sales of SOEs and IBRA assets to foreign buyers. The political and social instability that disrupted production and exports has reduced foreign exchange earnings and tax revenues of the government. The uncertainty of the continuation of the IMF program, disbursement of loans from the World Bank and other international financial institutions and bilateral assistance, and the rescheduling of the public and private sectors' external debt raised foreign exchange and credit risks further. The need for banks in Japan to further reduce NPL ratio and meet the capital adequacy ratio based on market-accounting standards reduced their loans to firms operating in Indonesia and/or forced some to repatriate capital back to Japan.

On the demand side, the increase in country risk has led to panic buying of US$, especially from the corporate sector which needs foreign exchange to repay external debts which are due. The increasing negative market sentiment regarding domestic social and political instability and uncertainty about the future course of economic policies add to the pressure on the

rupiah. The high level of rupiah volatility is also due to speculative activities because of the political, social and economic instability.

The portfolio balance model of exchange rate determination indicates that an increase in the supply of non-traded government bonds in Indonesia depreciates the exchange rate and raises the domestic interest rate. This is because the wealth effects due to the increase in bonds raises foreign-currency assets (Branson and Buiter, 1983).

To stabilize the rupiah exchange rate, Bank Indonesia has taken a number of policy measures to mop up liquidity. The measures include open-market operations, i.e. selling its certificates (SBIs) and depleting its foreign-exchange reserves. As pointed out earlier, due to the shallowness and narrowness of its secondary market, the use of government bank recapitalized bonds as a monetary instrument is still very limited. The short-term Treasury bill is non-existent. Early in 2000, Bank Indonesia also introduced administrative regulations restricting rupiah transactions between banks in Indonesia and non-residents. The aim of this policy of reducing access of non-residents to the rupiah is to dampen its fluctuations due to foreign speculation. Although this measure can limit rupiah transactions offshore, it has a negative consequence. The measure has limited the supply of foreign exchange from non-residents, caused by the limited attractiveness of the domestic foreign exchange market due to declining domestic facilities for foreign exchange transactions. The speculative activities of the economic agents have been greatly reduced with the improvements to the implementation of prudential rules and regulations of the banking system, especially with regards to foreign-exchange transactions and the monitoring of vostro accounts.

The efforts to stabilize the external value of the rupiah have been supported by other policies that ease pressures on the demand for foreign exchange and measures that add to its supply. Meanwhile, macroeconomic policies that successfully maintain a realistic inflation rate combined with the government fiscal policy to maintain the primary budget surplus to at least 1 percent of annual GDP have significantly reduced the ratio of public debt to GDP from 106 percent in 2000 to 95 percent in 2001. Demand for debt repayments has been temporarily reduced with the successful agreements with external creditors to reschedule the public debt under the Paris Club arrangements, and the private debt under the London Club. Between 1988 and 2002, The Paris Club granted three reschedulings of Indonesia's public sector's external debt. The first rescheduling, granted on 28 September 1988, amounted to $4.5 billion. The second was on 12 April 2000 and amounted to $5.8 billion, and the last rescheduling was

on 12 April 2002, covering $5.4 billion. On the other hand, the supply of foreign exchange increased with the sale of assets under the control of IBRA (including Bank Central Asia, or BCA) and the privatization of some SOEs.

The purchasing power parity (PPP) concept can be used to explain the reasons for exchange rate movements:

$$R = E.P^*/P \qquad (3)$$

where R is the real effective exchange rate; E the nominal rupiah exchange rate (Rp/USD); P* international price (CPI) level; and P is domestic price (CPI) level. Solving equation (3) for E yields

$$E = R.P/P^* \qquad (4)$$

Equation (4) indicates a number of possible reasons for the depreciation of the rupiah since the crisis in 1997:

(1) the slow economic growth and stagnant productivity following the crisis;
(2) the expansionary monetary policy that was adopted during the crisis in 1997-98 in support of financially ailing banks;
(3) the high increase in the stock of government bonds, mainly to recapitalize financially distressed domestic banks. As discussed earlier, the portfolio balance approach to exchange rate determination tells us that the high increase in government bonds crowds out private investment and increases interest rates in the domestic market. This tends to depreciate domestic currency to equalize returns on domestic and foreign bonds or assets;
(4) the increase in administered prices as a way to cut government budget subsidies;
(5) the high unemployment rate, rigid labor markets, and slow pace of economic reform. The rigid labor market may be due to the periodic increases in minimum wage legislation and reduced labor mobility following the ethnic conflicts and social unrests in some regions; and
(6) the political and social uncertainties, along with the slow progress in economic recovery, that affect the privatization of SOEs and divestment of IBRA's assets, the investment climate, and capital flows. The proceeds from privatization of SOEs and divestiture of IBRA's assets help finance the budget deficit. Capital inflows from the sale of equity shares to foreign investors would also finance the balance of payments deficit.

There are conflicting views on the impact of the high interest-rate policy on the behavior of the rupiah exchange rate. Furman and Stiglitz (1998) examined 13 episodes in nine emerging economies, in which interest rates rose temporarily by unusually large amounts. Using a simple regression analysis, they found that the level and duration of high interest rates affected exchange rates perversely. Conversely, Goldfajn and Baig (1999) find no evidence that higher interest rates are associated with exchange rate depreciation. Basurto and Gosh (2001), using a simple monetary model to filter out the effect of the monetary expansion on the exchange rate in five emerging economies (including Indonesia), also find little evidence that higher real interest rates contributed to exchange rate depreciation.

TRANSMISSION MECHANISM

As mentioned earlier, the exchange rate is currently the most powerful transmission mechanism of the monetary policy in Indonesia. It affects the economy's competitiveness in international markets. As the exchange rate alters relative prices between the traded sector and the non-traded goods and services, the change in the exchange rate also affects the allocation of resources between these economic sectors. As it is widely believed that the traded sector of the economy is more efficient than the non-traded one, such a reallocation of resources will increase domestic productivity via an improvement in efficiency. The exchange rate also influences prices through its effects on prices of traded goods, whose prices are set in international markets, as well as prices of a wide range of non-traded goods. As a result of this, exchange rate policy can be used to pursue an inflation target. Moreover, an exchange rate policy to correct the real exchange rate misalignment can reduce uncertainty in financial markets to discourage speculation against the rupiah.

The positive real effective exchange rate (REER) development (Graph 1) provides a sound environment for economic recovery as it gives financial incentives for mounting the production and export of tradable goods in the non-oil sector. Policy-makers cannot target or manage the positive REER as the domestic inflation rate remains high. The high domestic inflation and government policy to reduce frequent subsidies on state-vended products and adjustment of the mandated minimum wage to past inflation partly annul the effect of the nominal depreciation of the rupiah on the REER. The more complicated licensing and tax systems also add to the costs of production and deterioration in productivity. All of these have reduced the efficiency of currency depreciation, which is defined as

the percentage change in the real exchange rate divided by the percentage change in the nominal exchange rate. The efficiency coefficient of the rupiah depreciation in 2001 amounted to 1.6 as the nominal rupiah exchange rate increased by 11 percent, still slower than the growth rate of the real effective exchange rate at 20 percent. The efficiency coefficient for 1999 and 2000 amounted to –0.6.

The channels of monetary policy, such as interest rates, asset prices and credit mechanisms, do not function effectively. There is no close link between the short-term interest rate set by Bank Indonesia and the long-term lending rates of commercial banks. This is mainly because of the fragility of the banking industry. Moreover, with thin capital and bond markets, an adjustment in the repurchase market rate does not significantly affect bond yields and stock market prices. This limits the effectiveness of monetary policy through the interest-rate channel and the asset-price channel. The credit mechanism does not work as financially distressed banks cannot expand lending.

CONCLUSIONS

The movement towards market-based monetary policy in Indonesia is constrained by the limited money market instruments and the shallowness of the market. The principal instrument available for Bank Indonesia for open market operation is the SBI, its own deposit certificates. Starting with modest amounts, the Treasury is about to issue short-run Treasury papers to refinance the matured government bonds that have been used to refinance ailing banks. The existing institutional investors, such as insurance companies and pension funds, however, are not financially strong enough to absorb a large amount of government paper. The demand for government bonds by foreign investors is very small. The formulation and implementation of monetary policy to achieve national monetary stability have become more difficult because of the fiscal distress and the fragility of the banking system as well as the corporate sector. The social and political instabilities add further to the problem as they cause capital flows as well as the supply and demand of money to become more volatile. These instability and high interest rates have also increased the money multiplier.

Monetary policy in Indonesia is implemented by controlling the growth rate of the supply of base money. The monetary base target can be interpreted as a link between the operational rule and the inflation target. In January each year, Bank Indonesia announces a numerical inflation target

for the calendar year and the basic monetary program to achieve it. The program includes targets for both domestic and foreign components of the monetary base and an output forecast. To empower the central bank in achieving the domestic credit target, the Bank Indonesia Law of 1999 bans Bank Indonesia from financing the government budget deficit and terminates its development role for financing credit programs and its own subsidiaries. These regulations reduce the power of the government to increase revenue from seigniorage, or the printing of money, and also through its discretionary allocation. Bank Indonesia is mandated to publish reports on the implementation of monetary policy and to organize active public relations activities.

The inflation rate has been gradually lowered and stabilized with the manageable growth of money supply combined with the appreciation of the external value of the rupiah, the progress in economy wide reform that reduces rigidities, and the relaxation of control on prices of state-vended products. The decline in the inflation rate and the appreciation of the rupiah, combined with the progress in bank restructuring, help to reduce the interest rates.

There is no specific target for both the nominal and real exchange rate under the current floating exchange rate system. However, the authorities intervene in the foreign exchange market and influence interest rates to reduce exchange-rate volatility. This helps stabilize the inflation rate, prevents speculation against the rupiah, and stabilizes repayments of external debts. As the exchange-rate is at present the most powerful transmission mechanism of monetary policy in Indonesia, the exchange-rate policy is also intended to influence Indonesia's competitiveness in international markets and to induce allocation of resources from the non-traded sector to the traded sector in the domestic economy. The monetary policy transmission mechanism through the interest-rate channel and the asset-price channel does not work effectively due to the fragility of the banking system and the shallowness of the capital and bond markets.

Graph 1. Inflation, SBI, and Exchange Rate

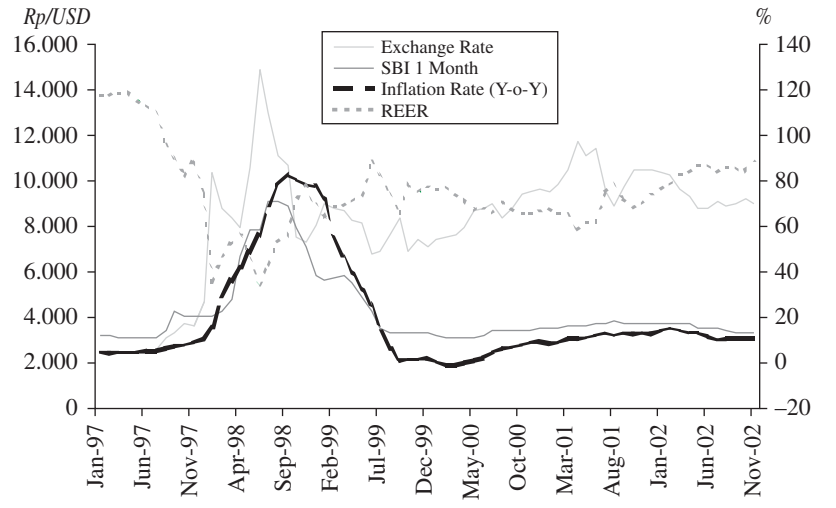

Table 1
Macro Economic Indicators of Indonesia, 1997 – 2002

Indicators	1997	1998	1999	2000	2001	2002
Real Sector						
GDP	4,7	–13,1	0.8	4,8	3,4	3,5
Expenditure components (annual growth)						
Consumption	6,97	–7,11	4.26	3,89	6,2	5,8
Fixed Gross Capital Formation	8,57	–33,01	–18,2	21,92	2,6	0,2
Export Goods and Services	7,8	11,08	–31,8	26,48	1,9	0,4
Import Goods and Services	14,72	–5,29	–40,68	21,09	8,1	–2,5
Production components (annual growth)						
Agriculture	1	–1,3	2,2	1,7	0,6	0,6
Industry	5,6	–16,5	0,32	6,01	4,1	4,1
Services	3,62	–3,85	1,94	2,2	2,0	1,9
Inflation Rate (y.o.y %)						
Target [1)]	–	–	–	3 - 5	4 - 6	9 - 10
Actual	11,1	77,6	2	9,4	12,6	10,48
Average Exchange Rate (RP/US$)	4,650	10,088	7,850	8,544	10,255	9,290
REER Index [2)]	58,05	56,80	77,46	66,25	73,52	88,27

Indicators	1997	1998	1999	2000	2001	2002
Balance of Payment						
Current Account/GDP	–2,3	4,2	4,1	5,1	3,4	4,2
Capital Account (billions US$)	2,5	–3,9	–4,6	–6,8	–8,9	–3,4
Net Private Capital Flows (billion US$)	–0,3	–13,8	–9,9	–10,0	–8,6	–3,9
Debt Service Ratio (DSR) (%)	44,5	57,9	56,8	41,1	41,4	32,2
Debt to export ratio (%)	207,3	261,8	252,1	191,0	194,5	272,5
Short term debt to NIR ratio (%)	106,8	93,1	59,5	39,2	43	–
International Reserve (month of imports) and gov't debt payment	4,5	5,7	6,7	6,0	6,3	6,6
Net Resource transfer (millions US$)	14,755	–8,31	–22,311	–19,492	–11,705	–8,46
– External debt disbursement	38,632	24,853	14,420	9,409	10,902	6,976
– External debt repayment	23,678	25,684	36,730	28,902	22,607	15,44
Fiscal	**1997/98**	**1998/99**	**1999/00**	**2000**	**2001**	**2002**
Deficit/Surplus (% GDP)	–0,9	–2,7	–1,6	–3,2	–2,4	–0,77
Interest rate burden (% of total exp.)	9,9	18,5	20,7	23,8	26,0	41,7
Interest on domestice debt	0	4,7	10,8	15,5	17,4	22,19
Interest on foreign debt	9,9	13,7	10	8,3	8,6	7,32
Public Debt/GDP:						
External	–	–	46,39	51,38	46,9	55,74
Domestic	–	–	60,98	55,08	53,2	62,03
Monetary Sector (annual growth)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Target						
Base Money	–	–	14,4	8,35	12,5	13,60
NDA	_	_	–36,25	–47,867	–148,2	–23,63
NIR	–	–	45,056	–3,289	14,3	24,4
Actual						
Base Money	34,26	60,89	35,50	23,40	1,74	11,60
NDA	208,65	–14,67	–80,62	–108,42	–132,02	–63,52
NIR	106,83	14,09	–18,56	8,80	2,88	11,48
M1	22,20	29,20	23,20	30,10	9,58	6,89
M2	23,20	62,30	11,90	15,60	13,58	6,74
Some Ratios of Money						
Money Multiplier:						
– M1/BM	1,70	1,35	1,22	1,29	1,39	1,46
– M2/BM	7,72	7,69	6,35	5,95	6,60	6,93
Velocity of Money (annual growth)	7,72	7,69	6,35	5,95	6,60	6,93
– Nominal GDP/BM	–11,81	–9,32	–10,38	20,82	–12,46	6,78
– Nominal GDP/M1	–3,36	14,43	–1,40	–11,90	5, 71	1,19
– Nominal GDP/M2	– 4,13	–7,86	7,21	–0,83	7,87	–3,42

Indicators	1997	1998	1999	2000	2001	2002
Money Market Instruments						
– BI's instruments	12,440	61,127	110,661	97,760	119,549	133,05
– SBI	8,923	51,884	86,855	78,918	102,645	113,46
– BI Facilities (prev'ly Rupiah Intervention)	3,517	9,243	23,806	18,842	16,904	19,572
– Interbank Placement (mostly in money market)	103	42	158	130	149	133
– Tradeable Govt Bonds	–	–	–	19,586	61,184	91,79
Total	24,983	122,296	221,480	215,236	300,431	358,032
SBI/Total	35,7%	42,4%	39,2%	36,7%	34,2%	31,7%
Interest Rate (%)						
1-month SBI	20	38,44	12,51	14,53,	17,6	13,06
Interbank overnight rate	40,67	39,71	12,06	11,41	15,7	9,96
1-month deposit rate	25,39	41,42	12,24	11,96	16,1	13,94
working capital credit rate	25,4	34,75	20,68	17,65	19,2	18,57
investment credit rate	18,94	26,23	17,6	16,86	17,9	18,00

1) inflation target for 2000 and 2001 excluding the inflation form govt policies on price and income
2) trade weighted with 8 major counties

Table 2
Principles and Instruments of Monetary Policy Program in Indonesia

First	Second	Third
Supply of Base Money = Demand for Base Money	Discretionary Measures	Transparency and Governance
Control the rates of growth of • base money • domestic credit • net international reserves	Mop up liquidity, particularly excessive reserves of commercial banks	• published reports to Indonesia Government and public • press releases and advertizements

Table 3
BANK INDICATORS
October 2002

	Number	Branch Offices	Assets (Rp trillon)	As % of assets			NPLs Gross (% of loans)	NPLs Nett (% of loans)	CAR (%)	Capital (% of asssets)	Estimated loss fixed rate bonds)[2] (in trillion Rp)
				Recap bonds)[1]	SBI	Loan (gross)					
1. Government-contolled Banks	41	2,821	852.3	–	–	–	–	–	–	–	–
1. State Banks)[3a]	4	1,920	501,0	50,6	2,1	34,8	8,5	1,9	21,0	6,5	1,2
2. IBRA banks)[3b]	11	–	294,2	–	–	–	–	–	–	–	–
a. Recaptilized banks	7	–	84,1	40,1	6,5	35,2	24,3	9,8	–	5,7	0.1
b. Bank Taken Over (BTO)	4	–	210,1	39,5	13,0	22,9	4,9	0,1	–	10,9	0,2
3. BPDS)[4]	26	901	57,1	2,1	11,2	40,5	6,4	4,7	17,1	9,0	0,0
Private Forex Banks)[5]	–	3,635	–	–	–	–	–	–	26,1	–	–
Private Non-Forex Banks)[5]	–	533	–	–	–	–	–	–	16,9	–	–
II. Private Sector Banks Catergory A Banks)[6]	69	–	119,0	–	16,6	47,5	5,2	1,3	–	10,6	–
III. Foreign Banks	34	113	124,2	–	–	–	–	–	–	–	–
1. Fully branches	10	61	84,3	–	11,9	43,8	19,8	2,8	18,2	7,9	–
2. Joint Venture	24	52	39,9	–	16,5	63,9	22,9	10,2	28,9	20,7	–
TOTAL)[7]	**144**	**7,192**	**1,095,5**				**10,7**	**2,9**	**23,1**	**8,8**	

Notes:
) 1 Excluding recap bonds on portfolio of non-recap banks, Sub-Registry and Ministry of Finance amounting to Rp52,65trillon.
) 2 Yearly estimated loss, based on average 1-month rupiah-deposit rate of 13.12% (end-October 2002), and fixed-rate bond of 12%.
) 3 Excluding Bank Ekspor Indonesia, a government-owned financial institution established to support export transactions.
) 3b Financial figures before legal merger of Bank Universal, Bank Prima Express, Bank Artamedia and Bank Patriot.
) 4 BPDs are regional development banks. Each of the 'old' 26 provinces has one BPD.
) 5 Applied for all IBRA banks and Category A Banks.
) 6 Category A banks are those which had CAR at least 4% in December 1998.
) 7 Total CAR and Capital calculated for the whole industry (all types of bank), not vertical summation applied for Number of Banks, Branch Offices and Asssets.

Table 4
Financing the Bank Restructuring
as of November 2002

	Total Bonds	Percent of Total	Total	Fixed Rate Bonds *)			10 years	Variable Rate Bonds	Hedge Bonds
				5 years	6 years	7 years			
Bank Indonesia	218,0	33,6%	–	–	–	–	–	–	–
Program Credit	8,9	1,4%	–	–	–	–	–	–	–
Ministry of Finance	0,9	0,1%	0,9	0,9	–	–	–	–	–
Recapitalized Banks	367,9	56,7%	132,5	41,6	16,1	22,1	52,7	209,1	26,4
State Banks	251,7	38,8%	103,7	18,9	10,1	22,1	52,7	128,7	19,3
Private Banks **)	115,0	17,7%	28,3	22,6	5,8	—	—	79,6	7,1
Regional Development Banks	1,2	0,2%	0,4	0,1	0,3	—	—	0,8	—
Non-Recapitalized Banks	53,2	8,2%	20,6	17,4	3,3	–	–	32,6	–
TOTAL	**648,9**	**100,0%**	**154,0**	**59,8**	**19,4**	**22,1**	**52,7**	**241,7**	**26, 4**

*) Fixed Rate Bonds dipisahkan berdasarkan (remaining maturity).

**) Temasuk kepemilikan BTO.

Appendix

McCallum formulates the quantity equation for the monetary base in terms of growth rates as follows:

$$\hat{H} = \pi + \hat{y} - v \qquad (1)$$

where: $\hat{H}$ is the rate of growth of base money;
π is inflation rate;
$\hat{y}$ is the real rate of economic growth;
v is rate of change of the velocity of base money.
The sum of the inflation rate (π) and the real rate of economic growth
($\hat{y}$) is equal to the rate of growth of nominal income ($\hat{Y}$).

The rate of change of the velocity of the monetary base and the rate of change of money ($\mathfrak{V}$) are linked through the following relationship:

$$v = (\mathfrak{V} + m) \qquad (2)$$

where m is the money multiplier. The variation in the two velocities differs if the money multiplier changes.

Substituting equation (2) in equation (1) yields:

$$\hat{H} = \pi + \hat{y} - \mathfrak{V} - m \qquad (3)$$

At certain values of economic growth, the velocity of money and changes in the money multiplier equation (3) can be used to set a base money target to achieve a certain level of the inflation rate.

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Jogjakarta: A Regional Case Study — Restructuring the Civil Service towards Economic Development

Hamengku Buwono X

Sultan and Governor of Jogjakarta, Indonesia

Throughout its history, Indonesia has struggled to develop a strong and efficient civil service. First under Dutch rule and then under subsequent independent governments, the country's civil service was under-financed, poorly equipped, and inadequately trained as power was vested in the hands of a select few, especially during the New Order period.

The country was run and managed under a single leader who was involved in almost every major policy-making decision. Millions of civil servants were poorly trained, paid low salaries and, most damagingly, kept out of the loop and were thus unable to socialize the policies they had to implement. This was true not just in Jakarta, but throughout the country, as regional or provincial governments not favored by Jakarta were deprived of the financial and human resources to meet the needs of their constituents, leading to a deterioration of public services, such as education, health, and infrastructure.

Jogjakarta suffered, too, under the New Order regime, as did other provinces that were at times perceived as a threat by the inner circle of the central administration. There was concern that, if allowed to develop economically and politically under Sultan Hamenku Buwono IX (hereafter Sultan HB IX), a key minister in the Sukarno government and vice-president to Suharto between 1973 and 1978, Jogjakarta could potentially rise to become a competing political power base to Jakarta. Under Sultan HB IX, Jogjakarta was, in fact, at the forefront of civil-service reforms as he instituted a number of innovative measures to ensure that the civil service was capable of doing its job and fulfilling its responsibilities. For example, in the 1950s, he revamped the financial structure of the regional government by introducing control mechanisms that ensured that every rupiah spent was accounted for and that modern budgeting concepts were applied. As the Sultan was also the head of the National Financial Control Board, these

measures were implemented throughout the country, but when Sultan HB IX resigned his position as vice-president in 1978, Jakarta quickly moved to replace the system with a highly centralized government structure.

Sultan HB IX was also instrumental in developing an administrative structure that empowered local and district levels through direct election of members of village councils. The region in fact held the first open elections in the country in 1951 as the people of Jogjakarta chose their own local leaders rather than having them forced upon the community. However, given that such a set-up would potentially pose a threat to the central government, it was soon dismantled, and all important government officials throughout the nation were from then on appointed by Jakarta.

Furthermore, a disproportionate level of investment and development as directed by the central government caused some provinces greater difficulties as local economies stagnated and physical infrastructure deteriorated. The city and autonomous province of Jogjakarta remained an economic and political backwater — with modest income coming only from the small number of tourists who visited the historical and cultural sites and from the thousands of students who thronged to the various universities in the area — for the entire three decades of New Order rule.

As long as the New Order government remained in place, Jakarta and a few favored provinces would have continued to grow and prosper at the expense of the rest of the country. However, the Asian financial crisis of 1997 swept away the edifice that Suharto had built as it toppled under the weight of its own weaknesses and ushered in a new era of reform and democracy for the country. The implementation of the Regional Autonomy Law in 2000 further ensured that this nation would never return to the dark days of centralized rule and that the people finally would have their voices heard at all levels of government.

FORCES OF CHANGE

The changes that the 1997 financial crisis and the ensuing political upheaval forced upon the nation have compelled us to enact sweeping reforms of the administrative structure of Jogjakarta's civil service. The forces of globalization have also opened our eyes to the wider world, and we know that we can no longer afford to remain disengaged from what is occurring elsewhere around the globe. With images from every nook and corner of the world being beamed into the living rooms of Indonesians, the Internet affording us information and knowledge at our fingertips, and the

knowledge that the global movement of funds can wreak havoc on an ill-prepared country or community almost instantaneously, we can no longer just sit back and watch the world go by.

If we are to be realistic and look at ourselves with a critical eye, we must admit that Jogjakarta is today woefully ill-equipped to face the demands of the modern age. We can no longer side-step the issue, but must openly admit openly that until and unless we recognize our shortcomings and act to overcome them, we, both regionally and nationally, will be left behind as the rest of the world moves forward.

The impetus for this change must be with the government, both at the national and provincial levels. Without an efficient, effective and highly motivated civil service, we will be incapable of dealing with the complexities of the modern age — whether they be understanding the needs of investors or business communities, the forces that drive global capital markets, the way economies are interlinked, and the speed at which goods have to move from the factory floor to the consumer. If we are unable, as is the current state of affairs, to even process and provide such simple services as making new identification cards without long delays and confusion or provide basic healthcare services, so that if a sick child is taken to a hospital, he or she will be diagnosed correctly and given the right medication, or if we cannot explain how our land registration system works in a simple brochure, how can we expect to compete with other more advanced countries?

Without enacting sweeping changes and modernizing our bureaucracy, we cannot hope to attract investments, and without investments, we will be unable to achieve economic growth. If we remain mired in our complacency, how can we improve the lives of our citizens and give our young the hope of a brighter future? It is thus critical that we change our mindsets immediately and dramatically improve the level of public services. We need to break the log-jam that has held us back for so many years.

THE CURRENT STATE OF THE ECONOMY

Unlike many resource-rich provinces in Indonesia, Jogjakarta is not blessed with rich mineral deposits or large quantities of oil or natural gas that it can extract and sell at huge profits. Nor does it have a large supply of arable land as only 65 percent of the land is fertile, and even then, much of this land is filled with archaeological sites and artifacts, making large-scale commercial farming near impossible.

Furthermore, the Jogjakarta Special Region is tucked into the bottom of central Java, effectively cutting it off from global trade routes and thus giving the region poor access to global markets. It lies some 120 km from the nearest seaport and is serviced by a medium-sized airport with air links to Jakarta, Surabaya, Mataram, and Bali. It is also connected to other cities through the railway network with destinations to: Surabaya, which lies 300 km to the east; Jakarta, which lies 600 km to the west; and Bandung, which lies 500 km in the same direction. The area, measuring 3,186 sq km, is also relatively small when compared with its giant neighbor, Central Java, which is ten times larger.

These constraints, however, have been offset by a number of strengths, mainly the region's rich cultural heritage (two of Indonesia's most famous and popular world heritage sites are located either within, or in close proximity to, the city) and the large number of tertiary institutions, which have over the years led to the mushrooming of other private educational facilities. There are now 102 universities and institutions of higher learning in the city, making it the Boston of Indonesia with the highest number of universities per capita in the country. Thanks to this, Jogjakarta has the highest literacy level in the country and the second highest human-development-index ranking after Jakarta.

Coupled with its large student population and the area's strong historical and cultural background, it has over the years seen a steady flow of tourists to the region, enabling the growth of cottage industries in handicrafts, batik, silver ornaments, and furniture as well as sectors that serve tourists such as hotels, gift shops, and restaurants. In fact, due to these factors, the region suffered one of the lowest economic contractions at the height of the financial crisis. Its GDP still expanded by an average of 5 percent over the past three years as compared to the 3 percent of the national economy.

Over the past three years, the service sector, led by the growth of trade, tourism and hotels, has become the dominant sector of the economy, contributing 32.5 percent of the region's GDP. With plans underway to further strengthen and enhance this crucial economic engine by turning the city into a major Asian destination for meetings, incentive travel, conventions and exhibitions, it is anticipated that the service sector can fuel stronger economic growth for the entire region.

The economic crisis has, however, brought other benefits to the province. One of the most striking changes has been the growth of small and medium-sized enterprises (SMEs) as large-scale layoffs in other regions have led to the return of many native sons who have set up their own businesses to cater either to the large student population or the growing number of tourists.

According to the latest employment statistics, some 635,000 workers, or 43 percent of the region's workforce, are self-employed with non-permanent jobs.

It is clearly evident that without natural resources or a significant industrial base, Jogjakarta is highly dependent on the service sector for continued economic growth. Given the make-up of its economy, it is vital that the regional government is able to create the right investment climate through targeted policies, i.e. providing adequate security for foreign tourists as well as domestic visitors and developing a civil service culture that is geared towards meeting the challenges of the 21st century.

Using our catchment of young and bright minds, the government is also formulating plans to attract high-tech investments and industries to set up operations in the province. We are acutely aware that we face some considerable hurdles in achieving our goals, but we are at the same time confident that if we tackle these hurdles step by step, we will achieve progress.

THE REMAKING OF THE CIVIL SERVICE

With regard to the aforementioned, Jogjakarta has embarked on an ambitious programme that will, over the next five years or so, distinguish the region as having a bureaucracy that is not only service-oriented, but also in tune with global economic and financial trends. Civil service reform is now the top priority for the government and is at the very heart of its efforts to turn the region into a major Asian, and indeed international, tourist destination to rival Bali as well as a hub for high-tech industries.

This reformatting, so to speak, of the public service is premised on four pillars:

(1) amending the government's financial system;
(2) implementing a human resource development strategy;
(3) changing the highly regulatory nature of the public service; and
(4) (probably the most difficult goal) instilling new values and culture within government agencies.

These changes are nothing less than revolutionary because they will alter fundamentally the life and career of a civil servant. From now on, he will no longer be guaranteed employment no matter how inefficient or irrelevant he is, but will instead be judged according to his ability to add value and to come up with creative solutions to problems.

Under the new financial system, for instance, the double-entry budgetary mechanism will be implemented whereby both revenue and passive assets are taken into consideration when assessing the financial performance of the government. In the past, the single-entry budgetary system meant that civil servants only had to focus on generating revenue for the provincial government and did not have to concern themselves with maximizing the use of assets when determining the performance of the provincial government. This means that an asset-rich province with a relatively small revenue stream had no responsibility to perform well under Suharto.

However, under the new budgetary system, Jogjakarta has been said to be sitting on assets worth some 2.8 trillion rupiah that are currently lying idle. These assets will now be put to productive use and civil servants will be judged on just how well they perform on this score. Although the system is still in its infancy, it is already providing significant results as in 2001, the regional government managed to achieve savings of more than 100 billion rupiah by more effectively managing its assets.

This new approach to financial management will also be applied to the three state-owned companies currently under the control of the provincial government. Taru Martani 1918, the country's oldest cigar manufacturer, for example, has just revamped its management team by hiring professional managers and developing a blueprint to transform the company into one of the leading high-quality cigar exporters in the world.

Under the new plan, the company will be privatised this year and be given three years to transform itself into a performance-based enterprise and cut its dependence on state subsidies. Its annual turnover of 20 billion rupiah should be more than tripled over this time frame and its activities expanded to establishing an international trading arm.

The government has also undertaken a massive program to rationalize its personnel structure as part of its human-resource-development strategy. As part of the restructuring process, some 1,000 top echelon jobs have been slashed to avoid job duplication and as a result of the merger of a number departments or divisions. This year, we are planning to merge a few more divisions so as to cut down wastage and inefficiencies, and also to save the government billions of rupiah. To promote greater professionalism within the civil service, we have introduced comprehensive job-requirement criteria, which means that all 569 top-echelon officers have to qualify for their positions.

When the entire process is completed, the Jogjakarta government will have dramatically reduced the size of its bloated bureaucracy from the current 13,000 employees to just 5,000 — which is the ideal size. Under

an innovative program to provide a new beginning for those public servants who will lose their jobs, the government is working with the private sector to help them start and run businesses that were in the past managed by the government itself. The government will provide the seed money while the private sector will lend its professional expertise to help these new businesses establish themselves and grow over time. This incubator program is now being studied by the central government and other provincial authorities interested in following Jogjakarta's lead.

As part of our plan to instill new values and culture into the civil service, we have introduced the concept of payment for "done" works. Unlike the past, when most civil servants practiced a culture of deception, we will now pay a reasonable salary and cover expenses incurred on the job, but we will not tolerate false claims and other methods employed by civil servants to increase their income dishonestly.

BUILDING A NEW ECONOMIC FRAMEWORK

As steps to transform the civil service are implemented, we recognize that our government must provide a vision and set the direction for its people. However, it cannot achieve these monumental changes on its own and must, therefore, co-opt the citizenry as well as the business community. In Jogjakarta, we now actively work with the private sector not just to review regulations that are regarded as obstacles to businesses, but also to formulate new macroeconomic policies. Jogjakarta Incorporated has been established to create development synergies between the government, the private sector, and the academia. Our largest university, University Gajah Mada (UGM), for example, has more than 100 patents that can be transferred into business plans, and land and other sources of support can be provided by government.

It is our active partnership with the region's prominent businessmen, university lecturers, the media, and various private-sector organizations that has helped the government formulate a long-term economic strategy for the region. Our vision is for Jogjakarta to become a cultural, educational, and tourist hub by 2010, and we are in the process of implementing the appropriate strategies to achieve this vision. One idea that has proved to be a considerable success is the forming of trade, tourism, and educational links with sister provinces, such as Einsburg in Austria, California and Indiana in the US, Kyoto in Japan, and Ismailia in Egypt. We are still finalizing agreements for six other such arrangements. Through such arrangements, we not only promote Jogjakarta to other parts of the world,

which may not have much knowledge of the region, but we also provide our businessmen with new export markets and set up communication channels and exchange programs for our universities.

Through such links, we also hope that new investments will flow into our region, and with new investments come new ideas and technology. Our people, however, must be ready to embrace such changes and prepared to participate in the realization of our vision and, in so doing, lift their standards of living and move away from the culture of dependency that for so long has inhibited their full potential.

We understand, too, that in this day and age, formulating a brand name is vital if we are to see our efforts bear fruit. We have thus hired an international consulting firm — another first for Indonesian provinces — to help us conceptualize our brand identity and market it to the world. We have set out, through public relations and the development of a more comprehensive physical infrastructure to attract, meet the needs of, and retain the world's best traders, tourists, investors, educationalists, and urban planners. Our mission is to transform Jogjakarta into a premier Asian city in which to live, work, and play.

With the implementation of the Regional Autonomy Law, Jogjakarta has been freed from central government control. Our destiny and our fate now lie in our own hands. Thus, we must rise to the dual challenges of integrating our region into the global economy and maintaining our unique cultural heritage. The government, through civil service reforms, can be a catalyst, but much will depend on our people and their willingness to acquire new skills and upgrade their knowledge base.

Although we live in the age of globalization, we must not lose sight of our unique heritage. For over five centuries, Jogjakarta has at various times been the center of Javanese culture and civilization. The Javanese worldview has always been that man must adapt to changing times and comprehend the forces that rule the universe; otherwise he will be overtaken by these same forces. That concept is as relevant today as it was five hundred years ago, and Jogjakarta is once again poised to lead itself into a new era and be a model city for the rest of Indonesia.

Part 4

FOREIGN RELATIONS

Indonesia's Leadership Role in ASEAN

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When the Asian financial crisis of 1997 sent Indonesia into a political, economic and social upheaval, people began to wonder: with Indonesia in a state of turmoil and weakness, will ASEAN now be without a leader and thus founder on the shoals of globalization and geo-political uncertainty? The premise of this question was that Indonesia had, until the troubles of the late 1990s, been the "leader" of ASEAN and could not be replaced. Another version of this question was that without Suharto, nobody would be leading ASEAN.

Let us examine the nature of the leadership that Indonesia has exerted in Southeast Asia, and the perception of it.

My view is that Indonesia's leading role in ASEAN was manifested not in the assertion of Indonesia's will on the association or in Indonesia's domination of the region by reason of sheer size and power. Quite the contrary, Indonesia took care not to dominate and throw its weight around, or to be seen as doing so. Rather, Indonesia's importance arises from the impact on the region of its domestic as well as foreign policies, its international influence, and the judicious application of its diplomatic skills.

Before ASEAN, there was the Association of Southeast Asia (ASA). One of a number of limited attempts at regionalism since the 1950s, ASA was set up by Malaysia, the Philippines, and Thailand in the early 1960s to work out cooperative programs among the three countries. It was also to provide a venue for regular meetings among their foreign ministers for the purpose of building confidence and promoting closer relations among themselves. The ASA also served as a counterweight to the Malay-based, short-lived MAPHILINDO of Malaysia, the Philippines, and Indonesia, which had been an attempt to subsume the bilateral disputes and suspicions among the three. It so happened that all three ASA members were battling communist insurgencies at home, and Indonesia was trying to strike a balance between the Indonesian Communist Party and the mainstream of

the country's armed forces. At the same time, the conflict in Indochina was heating up.

Following the political upheaval of 1965 and the launching of the New Order in Indonesia, the new leaders in Jakarta decided that they would join the rest of non-communist Southeast Asia in common purpose. It was not to be a simple matter of Indonesia joining ASA, however. After all, Indonesia was by the far the largest state in the region — in population, in area, in resources, in gross national product, and in military power. It had also been an eloquent articulator of Third World positions in many international fora. It had been a founder and leader of the Non-Aligned Movement (NAM), having hosted the 1955 Afro-Asian Conference in Bandung. It was now embarked on a historic national transformation. If Indonesia was to be part of a regional organization, it had to be a charter member. Thus, it was that Adam Malik, then foreign minister of the new government, went around to the capitals of the ASA members and Singapore, which had just separated from Malaysia, to talk about the formation of a new organization for Southeast Asia.

Founded in August 1967, ASEAN initially followed the pattern of ASA's organizational structure. It had no central secretariat. Instead, its affairs were run by a network of national secretariats. Its work was carried out in several economic and cultural committees. Indonesia's participation gave the new regional association weight and substance in regional affairs and in the world.

In a speech that I gave in August 1999, I observed:

> What Indonesia brought to ASEAN at the time of its birth was something that gave ASEAN weight, strength and direction, something indeed that made ASEAN possible. This was the transformation of policy and attitude that Indonesia underwent and that brought it in step, along with the rest of non-communist Southeast Asia, with the demands of the times. Indonesia, by 1967, had transformed its economic policies and its attitude toward its neighbors and the world at large. The new priority was development, and whatever it took to achieve it, domestically or internationally. A large dose of pragmatism was the order of the day.
>
> From a statist, mercantilist, import-substituting economy, Indonesia's economy had started to move to one that was market-driven, export-oriented and open to foreign trade and investment. Its foreign policy had shifted from one that was confrontational toward its neighbors and defiant of the West to one that placed great value on cooperation with its neighbors and good relations with the world beyond, including the West.

> Without such a transformation of economic and foreign policy in Indonesia, ASEAN as we know it would not have come about. If Indonesia had maintained a relatively closed economy, relying on commodity exports, resorting to import-substitution and dominated by state enterprises, the degree and kind of ASEAN economic cooperation and integration that we have today would not have been possible. ASEAN would not have been open to and plugged into the global economy the way that it is now. If Indonesia had kept to its narrowly nationalistic posture toward the world and retained its suspiciousness toward its neighbors, the level of mutual trust and regional identity that are the key to ASEAN's success could not have been attained.
>
> This is the importance of Indonesia to ASEAN, rather than one man's leadership or Indonesia's size alone. There is no sign that this basic policy orientation of Indonesia or its fundamental commitment to regionalism has diminished despite the political changes that the country is undergoing.
>
> At the same time, after the turmoil of 1965 and 1966, Indonesia made clear its continued adherence to a national policy of ethnic, racial and religious tolerance, of unity in diversity that had kept — and continues to keep — the nation together. This had a reassuring effect on its would-be partners in ASEAN, all of whom, in one form or another, to one degree or another, were blessed with ethnic diversity and threatened by ethnic division. Any erosion of this policy of tolerance in Indonesia would have ignited fears of contagion in its neighbors, which might have led them to seal themselves off from Indonesian influence. Divisiveness in Indonesia might thus have led to unbridgeable regional divisions in Southeast Asia.

This is the regional dimension of the inter-ethnic and inter-religious conflicts that have erupted in recent times into violence — to be sure, sporadic and localized violence. Such conflicts have already raised concerns in neighboring ASEAN countries.

In that 1999 speech, I went on to say:

> Moreover, Indonesia, in its wisdom, allowed itself to wield its already considerable weight in the world in the new context of ASEAN. In this way, ASEAN has been able to avoid the problem of some other regional associations, which are hampered and burdened by the dominance of their largest members. Instead, Indonesia's international influence, prestige and activism, magnified by its new internationalist posture, were to be placed in ASEAN's service — at the United Nations, in the Non-Aligned Movement, in the Group of 77, and in other international forums.

It has been pointed out more than once that one of ASEAN's strengths is that its largest member has been careful not to throw its weight around and is perceived not to do so.

I then remarked:

> In terms of style and approach, the Indonesian insistence on *mushawarah* and *mufakat* [consensus through discussion] firmed up the preference of the other Southeast Asians for consultation and consensus as the mode for regional decision-making. Any other mode would have made agreement in ASEAN much more difficult, if not impossible, rather than easier and more quickly, as some superficial media and academic commentaries assert these days. This has come to be known as the ASEAN way, which has put its stamp on the ASEAN Regional Forum and APEC [Asia-Pacific Economic Cooperation].
>
> The Indonesian concept of national resilience and regional resilience reinforcing each other strengthened the Southeast Asian conviction about the close linkage between political stability and economic development at both the national and regional levels.

Apart from these leading substantial, if subtle, contributions of Indonesia to the character and progress of ASEAN, the perception of its leadership of the association arose from the high-profile role that Indonesia had played in international and regional affairs. For decades, Indonesia had been a thoughtful and articulate advocate of certain positions on global issues like nuclear proliferation, arms control and disarmament, the environment, the North-South economic divide, the question of Palestine, maritime questions, and United Nations matters. Since Indonesia's positions on these issues generally reflected the views of most of ASEAN, as well as most of the Third World, Indonesia's highly visible and audible advocacy of them was taken, justifiably in most cases, as an indication of ASEAN leadership.

In regional affairs, Indonesia hosted the first ASEAN Summit in 1976 in Bali. It came forward to host the new ASEAN Secretariat in Jakarta when the Bali Summit agreed to establish one. In 1987, when a series of coup attempts was threatening the government of President Corazon Aquino just as it was preparing to host the third ASEAN summit, it was President Suharto's decision to override security advice and attend the Manila summit that moved the other ASEAN leaders to do the same.

Indonesia organized, hosted and, for the most part, managed the long-running series of "informal workshops" on Managing Potential Conflict in the South China Sea. In the search for a settlement of the Cambodian question in the late 1980s, Jakarta took the initiative of hosting the "Jakarta

Informal Meetings," with the long-time Indonesian Foreign Minister, Ali Alatas, in the chair and working strenuously behind the scenes.

Those meetings paved the way to the convening of the Paris Peace Conference of 1991, co-chaired by Alatas and his French counterpart.

The Paris conference led to UN-supervised elections in Cambodia in July 1993. Those elections and the political maneuvering that followed eventually resulted in a compromise two-party coalition government in Phnom Penh. That government collapsed in violence in 1997, on the eve of Cambodia's admission into ASEAN. As a result, ASEAN decided to defer Cambodia's membership while admitting Laos and Myanmar. Indonesia's Alatas was named to lead the *troika* — with the Philippine and Thai foreign ministers being the other members — which ASEAN mandated to help in finding a way out of the impasse. Cambodia finally entered ASEAN in 1999.

In the early 1970s, the Organization of Islamic Conference (OIC) began trying to broker a settlement between the Philippine government and a separatist group in the country's southern part. When, in December 1976, the Philippine Government and the Moro National Liberation Front (MNLF) concluded the Tripoli Agreement, the OIC assigned a "Committee of Four" to supervise the implementation of the agreement. The four were Libya, Saudi Arabia, Senegal and Somalia. None was from Southeast Asia. At the 1991 OIC foreign ministers' meeting, Indonesia succeeded in arguing that it was not right for the committee dealing with the southern Philippines question to have none of its members come from the region where the Philippines belongs. The committee was enlarged to six, with Indonesia itself and Bangladesh as the additional members. Indonesia assumed the committee's chairmanship in 1993. (The committee has since then been enlarged to eight, with the addition of Brunei Darussalam in 2000 and Malaysia in 2001, both ASEAN members.) In that capacity, Indonesia, in particular Alatas, worked tirelessly and with patience and sagacity to bring representatives of the Philippine government and the MNLF together, hosting several meetings in various places in Indonesia, until they reached a settlement in 1996. Suharto and Alatas reported this achievement in triumph to the 24th OIC ministerial meeting in Jakarta in December of that year. Subsequently, Indonesia took a leading role in supervising the arrangement on the ground in Mindanao. To this day, Indonesia continues to be active in the OIC on the southern Philippines question, an effort now led by the current foreign minister, Hassan Wirajuda, who has been involved with the question for many years.

One could say that the Jakarta Informal Meetings and particularly Indonesia's role in the *troika* for Cambodia came about on the basis of Indonesia's leading place in ASEAN. To be fair, the South China Sea workshops, the Paris peace conference, and the mediation of the southern Philippines problem were, strictly speaking, not ASEAN endeavors. Nevertheless, all these were events critical to Southeast Asia, and Indonesia's role could be ascribed to its leadership position in ASEAN and in regional affairs.

Thus, in the 1970s, the 1980s and part of the 1990s, Indonesia's activist diplomatic role in international and regional political issues and events stamped it as ASEAN's leader. Today, although as in other regional associations, tensions persist between and within ASEAN member states, the most critical decision facing ASEAN is not diplomatic in the classic sense, but how deeply and in what way to move regional economic integration forward. At the national level, the issue is how deeply and rapidly reforms are going to be undertaken — corporate, financial, economic and, ultimately, judicial and political reforms.

In terms of regional economic integration, Jakarta has remained faithful to its commitments to the ASEAN Free Trade Area (AFTA) and other ASEAN economic agreements, and it has gone along with proposals for further deepening regional economic integration, an enterprise essential for attracting investments to the region, fostering efficiency and stimulating economic activity. However, because of the severe setbacks that its economy has suffered in the past five years, and because of its internal political concerns, Indonesia has not been at the forefront of moves to expand the frontiers of regional integration; the hesitancy and the apprehension, particularly on the part of the private sector, have been palpable. The leading role in economic integration has fallen to Singapore, although it has, not surprisingly, been quite discreet in public about it.

Clearly, leadership, or at least full and enthusiastic participation, on the part of ASEAN's biggest nation and largest economy is needed if regional economic integration and the reform of institutions that govern national economies — the most critical items on ASEAN agenda today — are to make the kind of rapid progress for which the times call.

Rapid technological advances, economic globalization, and heightened competition dictate that Southeast Asian countries move away from systems in which business is conducted and wealth created largely on the basis of personal relationships and cozy networks of politicians, bureaucrats, tycoons, and financial establishments. They must now operate more within a framework of rules and institutions and allow the market greater play.

This means human resources must be developed for both technology and management and institutions built and created — that is, political and judicial institutions. This also means fostering the stability and strength, as well as legitimacy, of the state.

In relation to Indonesia, I declared in my August 1999 address:

> In the regional context, a transformation in Indonesia is, once again, required, if ASEAN as a whole is to negotiate the transition … [A]s in 1966-1967, how Indonesia manages its own transition and its own affairs could have a profound impact on ASEAN's future.
>
> Some political and social untidiness can result from the opening-up and growing pluralism of Indonesian society. But Indonesia will likely emerge from it all a more stable nation. Only a stable Indonesia can continue to contribute significantly to ASEAN's steadiness and balance. Only a stable Indonesia can continue to play a leading role in international affairs, which has been one of Indonesia's principal contributions to ASEAN's international influence and prestige.
>
> Indonesia will probably regain its steady growth, this time by building and re-building and strengthening its vital institutions — the legislature, the courts, the economic and financial supervisory bodies, the law-enforcement agencies, the political parties, the corporations, the banking system. How Indonesia gets back on the road of growth, and to what extent, will obviously influence the rest of Southeast Asia.
>
> How Indonesia handles military-civilian relations and the role of the military in politics could have an influence, too, on parts of Southeast Asia and beyond. How Indonesia manages diversity and how it accommodates ethnic aspirations and regional interests in the national polity and in the national economy could have an impact, in unforeseen ways, on some of its neighbors, on the stability of the region, and on ASEAN itself. Others in the region will closely watch how Indonesia deals with issues of human rights and political participation.

Thus, Indonesia's position in ASEAN today will be defined by how effectively and constructively it addresses the two main items on the region's current agenda — regional economic integration and domestic reform. As the region's largest economy, Indonesia has to take an active and leading role in pushing ASEAN's economic integration forward, overcoming its diffidence and hesitation. Its leadership has to project a vision of the next stage in ASEAN's economic integration. At the same time, its internal reforms and its strength and stability as a state, which have such an impact on many of its neighbors, need to be expeditiously and vigorously pursued.

Included in this is how Indonesia undertakes the institutional and policy reforms necessary for its economy to recover in a sustainable and stable way. Another important factor is how Indonesia manages the delicate and difficult balance among three policy principles adopted by the current dispensation in Indonesia:

(1) the maintenance of ethnic and religious diversity and mutual tolerance, which has been the hallmark of the Indonesian polity and Indonesian governance since the nation's founding;
(2) the fight against extremism and its violent manifestations; and
(3) the observance of the rule of law and respect for human rights.

In ASEAN's early years, Indonesia's active commitment to ASEAN's purposes and the transformation of its domestic economic and political system put a defining stamp on the association's direction and character. Similarly, today, a leading Indonesian role in the process of regional economic integration and the efficacy of its domestic transformation — at this stage, still highly uncertain and extremely difficult propositions — will be crucial to ASEAN's future course as well as to the well-being of the Indonesian people.

In the coming months, Indonesia will have an opportunity to define the role that it will play in ASEAN at this critical stage in its existence. In June, it will take over the chairmanship of the ASEAN Standing Committee, steering ASEAN cooperation in political, security, "functional" and organizational affairs, including the activities of the ASEAN Regional Forum. In October, President Megawati Sukarnoputri will chair and host the ASEAN summit in Bali and its sequels, ASEAN's meetings with the leaders of China, Japan and the Republic of Korea, together and separately, and with the Prime Minister of India. In July 2004, Indonesia will be chairing and hosting the ASEAN Ministerial Meeting, the ministerial meeting of the ASEAN Regional Forum, and the ASEAN's meetings with the ministers of its Dialogue Partners. And in September 2004, Indonesia will host the ASEAN Economic Ministers meeting and lead ASEAN's work in economic integration and cooperation.

It remains to be seen whether in these high-profile positions Indonesia will exercise a true leadership role in ASEAN or merely chair its meetings.

The Ups and Downs of US-Indonesia Relations

Edward Masters

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Indonesian President Megawati Sukarnoputri, who had been in office less than two months, paid a successful "working visit" to Washington on 18 to 19 September 2001. Coming just a week after the 9/11 attacks on the World Trade Center and the Pentagon, this visit by the leader of the nation with the largest concentration of Muslims attracted worldwide attention.

President Megawati said in a major public address in Washington that this was a time for Indonesia to show its "deep sympathy and support for the government and people of the United States of America in this difficult time." She went on to say that "we mourn with America … we share your grief and outrage and … we strongly condemn terrorism in all its forms and manifestations."

The joint statement issued by Presidents Megawati and Bush at the White House noted that the two presidents "vowed to open a new era of bilateral cooperation based on shared democratic values and a common interest in promoting regional stability and prosperity." President Megawati condemned "the barbaric and indiscriminate acts carried out against innocent civilians and pledged to cooperate with the international community in combating terrorism." President Bush "expressed his conviction that Indonesia's transition to democracy is one of the most significant developments of this era" and "pledged his support for President Megawati's efforts to build a stable, united, democratic and prosperous Indonesia."

The joint statement provides a sound base for future relations. As has happened before, however, exaggerated expectations were raised on both sides. On counter-terrorism, the United States expected "too much, too soon" from Indonesia while Indonesia, lacking full understanding of political realities in Washington, failed to understand that US preoccupation

with terrorism did not mean the US government would abandon pressures on human rights and continued domestic reforms.

As a harbinger of future problems, as Megawati was leaving Jakarta for Washington, her vice-president — the leader of Indonesia's largest Muslim political party — had said the US was partly responsible for provoking the violence. While condemning the attacks, he was quoted as saying, "Hopefully, the tragedy can cleanse the sins by the US." On her return to Jakarta, President Megawati, concerned by what she viewed as a delicate domestic political situation, pulled back from her strong support for counter-terrorist efforts. This pullback intensified after the initiation of military action in Afghanistan. While quiet intelligence exchanges continued between the two governments, public Indonesian identification with the campaign against terrorism and government action against extremists within Indonesia were limited until the 12 October attacks in Bali killed nearly 200 foreigners and Indonesians.

THREE HIGHS IN THE RELATIONSHIP

This lack of effective communication has plagued the relationship on important occasions in the past. Relations started on a high in 1949 following US support for the nation's struggle against Dutch colonial rule. Initially, Washington equivocated because of Cold War considerations, but the 1948 Communist uprising at Madiun in East Java convinced the government that Communism was a threat in the East Indies as well as in Europe. Faced with Dutch "police actions," which undercut UN-sponsored negotiations, the Truman administration informed the Dutch that "in the absence of an Indonesian settlement there was no chance whatever of Congress authorizing funds" for support to the Netherlands. This turned the trick, and the ensuing negotiations led to Indonesia's independence.

However, problems soon emerged. The Dutch and Indonesia had been unable to agree on the disposition of Netherlands New Guinea, and this festering problem was set aside for future settlement. When negotiations failed and Indonesia threatened to take the disputed territory by force, President John Kennedy, motivated in part by the Soviet Union's strong support for Indonesia, sent his brother Robert Kennedy to Jakarta in February 1962 in an effort to defuse the conflict. The result was an agreement to hold talks the following month in Middleburg, Virginia, with US Ambassador Ellsworth Bunker as mediator.

The talks quickly deadlocked, and the Kennedy administration brought strong pressure on the Dutch to accept a compromise under which the territory would be transferred to the UN for an interim period pending Indonesian control and an eventual "act of free choice." Once again, the United States stood high in Indonesia's estimation, but the glow quickly faded as President Sukarno rejected US efforts to turn his attention to economic development and opted instead for "confrontation" with Malaysia.

A third high point came with the installation of Suharto's New Order government starting in 1966 with its focus on developing the nation's economic potential. The US played important roles in three critical areas: rescheduling the US$2 billion Sukarno-era debt; forming the Intergovernmental Group on Indonesia as the aid-coordinating body; and developing the "one-third formula" under which the United States pledged to meet one-third of Indonesia's requirements if Japan provided a third and European and other donors covered the rest. This governed the aid relationship for a number of years.

TWO LOW POINTS

These bright spots were marred by two major lows, which still affect the relationship. In 1952, US pressure on Indonesia to sign a Mutual Security Agreement, which would have put Indonesia on the US side in the Cold War, caused the government of Prime Minister Sukirman to fall. This attempt to push Indonesia to choose sides reflected a lack of understanding by US policy-makers of the nature of Indonesia's "free and active" foreign policy and its abhorrence of military pacts.

Even more serious was US covert support in 1957 to 1958 for revolts against the Sukarno government in Sumatra and Sulawesi. The US denied it was supporting the rebels, but its credibility was shattered in May 1958 when a US citizen piloting a B-26 bomber on a run over Ambon was shot down and captured. This damaged US credibility to the extent that Indonesians have, for many years, accepted charges of US misdeeds and view American denials with scepticism. Washington's misreading of the Indonesian internal situation had other unfortunate results. It caused the exclusion from national life of some of Indonesia's most capable civilian and military leaders. It also opened the door for military assistance from the Soviet Union, and, for nearly a decade, Moscow became Indonesia's principal supplier of weapons.

THE SUHARTO YEARS

Relations with the Suharto government were good until the late 1980s, and the US played a strong supporting role in Indonesia's economic development, particularly in poverty reduction, food production, economic diversification, and family planning. US private investment was also of major importance, as were continued educational and cultural ties. However, by the late 1980s, the relationship cooled as corruption by the first family and cronies burgeoned, anticipated moves toward a more open society failed to materialize, and human rights abuses in East Timor and elsewhere grew. Private non-governmental organizations played important roles in bringing these abuses to the attention of the American public and government.

The collapse of the Soviet Union and the end of the Cold War reduced Indonesia's special position as a deterrent to Communist expansion in Southeast Asia. Coupled with increasingly blatant excesses by the Suharto government, this led to critical resolutions on Indonesia in the US Congress, culminating in the Leahy Amendment in 1999 (see below).

The Asian financial crisis of 1997 destroyed years of economic development and was the beginning of the end for Suharto. The United States worked through the IMF and bilaterally to help Indonesia through this difficult period, but these efforts failed due to inappropriate initial policies by the IMF and the fact that Suharto vacillated and lost valuable time while he toyed with the idea of adopting a currency board.

As a last-ditch effort, President Clinton dispatched former vice-president, Walter Mondale, as a presidential emissary in March 1998 to encourage Suharto to take the steps needed for recovery. The effort failed. When Mondale told Suharto that following IMF recommendations would produce results within six months, Suharto was reported to have said that he did not have six months and that barring dramatic results, there would be a revolution. Suharto was remarkably perceptive; he was forced out of office by a revolt within his cabinet and popular demonstrations in less than three months.

THE HABIBIE INTERREGNUM

Habibie was Suharto's handpicked choice for vice-president and succeeded to the presidency when Suharto resigned in May 1998. Washington greeted Habibie with a lack of enthusiasm. Habibie hoped to visit Washington, but the US government refused to give him this imprimatur of support. Relations remained correct but not intimate.

Domestically, Habibie wrought far-reaching domestic changes, and it is likely that history will treat his brief 17-months presidency more kindly than many current observers. He ended the imperial presidency by being easily accessible; he traveled widely and mingled freely with the people. If anything, he was criticized for being too "unpresidential." He removed restrictions on the press, and almost overnight the number of dailies grew from a few dozen to some 200. His government made progress in returning economic stability. Per-capita GDP was just below the 1995 level and the money supply, exchange rate, and inflation were relatively stable, although not back to pre-1997 levels. Two ground-breaking laws set the nation on the road to decentralization.

Habibie's greatest accomplishment was in the political arena. Although he succeeded to the remainder of Suharto's five-year term as president, Habibie recognized that political realities required that he get a popular mandate. In the fall of 1998, he announced that elections would be held in 1999 for a new parliament (and thereby most of the People's Consultative Assembly (MPR) which elects the president). Elections were set for 7 June, with 20 October as the date for the MPR to choose a president. The parliamentary elections were Indonesia's most open and free since 1955. Political parties started to function like bonafide ones, and the electorate participated enthusiastically in what domestic and foreign observers billed as a remarkably honest and open polling.

On the downside, the Habibie government made three mistakes which, together with his long association with Suharto, were to prove politically fatal. First, the government squelched an investigation into corrupt practices by Suharto on a technicality. Then, Habibie's attorney general was shown to have received US$5 million from tycoons who were under investigation by his department. In the open political environment of 1999, these events were billed by the press and students as a continuation of "business as usual."

Second, the owner of Bank Bali, one of the many which had become insolvent and which was taken over by the government, paid a bribe of US$54 million to intermediaries to facilitate payments of his claims against the government. It was later shown that at least part of the US$54 million went to support Golkar, the political party that constituted Habibie's base. The money was eventually returned to the government, but the cover-up failed and the damage had been done.

Third, and of major importance, was the tragedy in East Timor. In January 1999, Habibie, piqued by a strong letter from Australian Prime Minister John Howard urging that he take action to defuse international criticism

on East Timor, announced publicly without consulting the military or his foreign minister that Jakarta would hold a "ballot" (he avoided use of the term "referendum") before the fall MPR session to determine whether the East Timorese would accept autonomy within the Indonesian republic. If they rejected autonomy, they would be given independence.

The decision to have a vote in East Timor was the right one, given Indonesia's failure to win popular support in the former Portuguese colony, but it was carried out badly, and the results were disastrous for the Timorese people and for Indonesia. Habibie's failure to consult the military was to prove most unfortunate. Furthermore, the timetable set for the elections was unrealistic. Even leaders of the Timorese independence movement said several years were needed to prepare for orderly polling. Habibie charged ahead, however, assuming the Timorese would vote to stick with Indonesia and wanting this "victory" on record before the fall MPR session which would vote on his performance.

The result proved to be the final nail in Habibie's political coffin. Contrary to expectations of Habibie and the Indonesian military, the Timorese rejected autonomy by an overwhelming vote of 78.5 percent. Pro-integration militias supported by the Indonesian military had engaged in violent actions before the vote in an effort to intimidate voters. When the results became known, these militias ran amok, and they and elements of the military engaged in an orgy of killing, looting, and property destruction. Some 200,000 Timorese fled in terror or were forced to flee to West Timor for sanctuary. Order was restored only when the UN took control and administered the territory until May 2002, when East Timor joined the family of nations as an independent state.

A lasting effect from the East Timor imbroglio is the Leahy Amendment, a November 1999 amendment to the Foreign Operations Appropriation Bill introduced by Senator Patrick Leahy. As originally passed, the first five provisions require the US president to certify that Indonesia has taken effective action to redress the damage done by the militias and military in East Timor before any funds under this Act could be used for training programs for the Indonesian military. The sixth calls for measures to bring to justice members of the military against whom there is "credible evidence of human rights violations".

Three additional provisions were added the following year, requiring: (1) the Indonesian military to report to civilian authorities financial audits of the finances of the armed forces; (2) the Indonesian government to permit UN and "international humanitarian and human rights workers … unimpeded access to West Timor, Aceh, West Papua and Maluku"; and

(3) the release of "political detainees". This amendment continues to block US relations with the Indonesian armed forces, although the US Department of Defense is making efforts to resume a small military education and training program by having the funds included in the Defense Department appropriation bill, which would remove them from Senator Leahy's jurisdiction.

The Indonesian president is required annually to give an "accountability" speech to the People's Consultative Assembly about his or her performance. A negative vote on the speech does not automatically end the president's term, but it is a major blow. Habibie gave his accountability speech in mid-October 1999. The vote on 19 October, just 11 hours before the MPR was due to elect a president, was 322 in favor and 355 against. Faced with this lack of support and mounting problems within his own Golkar party, Habibie withdrew from the race at 1:30 a.m. on the day of the election, paving the way for the election of Abdurrahman Wahid, affectionately known as Gus Dur, to become the nation's fourth president.

GUS DUR: UNFULFILLED HOPES

Gus Dur seemed the ideal person to bring Indonesians together to meet the serious challenges to their unity and progress, and his accession was warmly welcomed in Washington and elsewhere. The new president had extensive administrative experience, having headed the 35 million member Nadhlatul Ulama (NU), a moderate Islamic social welfare and educational organization which had been founded by his grandfather. He had worked for much of his adult life to bring about better understanding among people of different religious faiths and was trusted by Indonesia's minorities.

He seemed also to have good political instincts and had put together a coalition which in the MPR presidential election defeated his nearest rival, Megawati Sukarnoputri, whose party had polled nearly three times the votes of his National Awakening Party (PKB). He showed political sagacity and statesmanship by backing her for vice-president the day after his election. Finally, Gus Dur was "clean", in that he had been an opponent of Suharto and was untainted by corruption. Unfortunately, he also had serious physical disabilities (he has had two strokes, has diabetes, and is almost totally blind) and proved to be an erratic leader. He served for only 21 months, and his presidency left behind more problems than it solved.

Gus Dur started with the handicap of a coalition government of seven political parties plus the military. Cracks quickly appeared. Cabinet

members felt more accountable to their parties than to their president, and Gus Dur was handicapped in trying to keep the herd moving in the same direction by the fact that he could not read and was, therefore, totally dependent on what he was told.

As a result, despite some achievements, the Gus Dur administration suffered four major failures. Despite the fact that he fired the military commander-in-chief and appointed the first civilian minister of defense since the 1950s, he never got the military under control. He was forced to pull back on military appointments he tried to make, and military elements — either on active duty or retired — were undoubtedly involved in growing communal violence throughout the nation.

Violence escalated throughout the archipelago. Thirty-eight churches and other Christian installations were bombed on Christmas Eve 2000 with heavy loss of life. The Jakarta Stock Exchange, Jakarta's most prestigious office building, was bombed with the loss of 15 lives. Serious communal violence broke out in East and Central Kalimantan and in Central Sulawesi. The independence movements in Aceh and Papua escalated. A bomb seriously injured the Philippine ambassador in Jakarta. The efforts of Gus Dur's government to get to the bottom of this violence or bring it under control were largely ineffective.

Corruption continued, but at a lower level. Under what the Indonesians call "Bruneigate", Gus Dur received a US$2 million donation from the Sultan of Brunei for domestic relief projects, but refused to account for use of the money. More seriously, about US$4 million was withdrawn from the pension fund of BULOG, the State Logistics Agency, by Gus Dur's masseur in what is known as "Buloggate". It is believed by many that the money was intended for use by Gus Dur's party. Most of the funds were subsequently returned. Gus Dur stormed out of a special parliamentary commission investigating these issues and refused to testify.

Gus Dur failed to follow democratic procedures when the going got rough. He called the parliament a "kindergarten" and refused to appear to answer questions or to deliver an "accountability" speech. In the early morning hours of 23 July 2001, he appeared on Indonesian television and threatened to impose a "state of emergency" and dissolve the parliament, the MPR, and the Golkar party. He promised fresh elections within one year. All of these actions would have been unconstitutional, and the military refused to carry out his orders to act under a state of emergency.

On the afternoon of 23 July, the People's Consultative Assembly met and by a vote of 591 to 0, with Gus Dur's party boycotting the meeting and the military abstaining, rejected Gus Dur's undelivered "accountability"

speech, revoked his mandate as president, and installed Vice-President Megawati as president.

The Clinton administration had welcomed the Gus Dur presidency as the first democratically elected government since the 1950s. Gus Dur came to the United States for medical treatment only a few weeks after his election and paid a working-level visit on Clinton. Things went well. The two met in the White House one more time, but relations cooled as Washington sensed that Gus Dur's commitment to reform had stalled and his effectiveness was gravely impaired. There were also several specific problems. First, although Gus Dur's first visit as president was to the United States, he took pains to point out that his first official visit was to China. Gus Dur and other government spokesmen stressed publicly and privately that Indonesia wanted to strengthen its ties with fellow Asian nations, especially China and India. Defense Minister Mahfud added to Washington's concern when he said in October 2000 that Indonesia hoped to establish a regional defense pact to counter the "arrogance of the United States".

There were other indications that Indonesia was chaffing under what it saw as undue pressure and interference by the US in Indonesia's affairs. Pressures on East Timor and threats to establish an international tribunal to investigate actions by the military and their militias following the elections were deeply resented in Indonesia although understandable from a Western viewpoint. US admonitions to Gus Dur in 2000 not to attend a nonaligned meeting in Havana and not to visit Iraq or other "outlaw" states were met by the president with public comments that Indonesia was not a "colony" of the United States and that he as president would go where he wanted.

This situation was aggravated by matters of style on both sides. The hard-charging, blunt-spoken US ambassador at the time was accused of rudeness, arrogance, and lack of sensitivity to local culture. Dewi Fortuna Anwar, an Indonesian political analyst and former Habibie presidential advisor, said, "Countries going through transition are always more nationalistic and sensitive to outside influences … What [Ambassador] Gelbard has been up to has been the straw that has broken the camel's back." Indonesians for their part failed adequately to protect US citizens and property from threats by hostile demonstrators or to follow through on commitments to US officials. Face and personal pride became involved and both sides probably over-reacted. Whatever the judgment of history on this period, the tragedy is that at a particularly important time, the bilateral relationship suffered serious damage and communications broke down.

MEGAWATI'S TURN

On 23 July 2001, Megawati returned to Freedom Palace in Jakarta where she had spent her early years during her father's presidency. Indonesia's fourth president in a little over four years, she faced huge challenges: a stagnant economy, massive unemployment and under-employment, serious communal violence, a more assertive radical Islam, a military at least partially out of control, and threats to national unity in two important areas. She put as her top priority the preservation of national unity.

Megawati had shown considerable ability in running the Indonesian Democracy Party until she was ousted by Suharto in 1996. She also proved to be a good campaigner in the 1999 parliamentary elections, and her new party, the Indonesian Democracy Party of Struggle (PDI-P), emerged with a solid plurality. As a harbinger of things to come, however, she failed to get into the nitty-gritty of politics to put together a winning coalition and was outmaneuvered by Gus Dur.

This seeming reluctance to get directly involved carried over into her presidency as she has delegated major responsibility to her senior ministers. As mentioned earlier, on her return to Jakarta, Megawati pulled back from her Washington commitment to join in combating terrorism and was critical of the initiation of hostilities in Afghanistan. Even then, intelligence cooperation and exchange of information between the two governments continued, and a Kuwaiti national residing in Indonesia who was turned over to the United States for interrogation in June 2002 proved to be a senior Al Qaeda operative. He blew the whistle on impending bomb attacks against US installations in Southeast Asia.

There were growing indications during 2001 and 2002 that some Indonesian nationals were deeply involved in radical Islamic movements and that these movements had bases within Indonesia itself. The Bush administration also became increasingly frustrated by the lack of serious attention to this problem. Few Indonesians publicly supported US efforts to root out the terrorist network in Afghanistan, and the field was left largely to radical Muslim groups within Indonesia. Almost daily, demonstrations against US installations and threats to "sweep" Americans from Indonesia added to the tension in the absence of effective protection by the Indonesian authorities.

The 12 October attack in Bali in which nearly 200 people were killed was a wake-up call for Indonesia. Early rumors put blame for the attack on the American CIA on the basis that it was trying to push Indonesia into the global anti-terrorist fight. Megawati's failure to refute these reports raised questions in Washington. It was an encouraging sign, however, that

Indonesia quickly accepted outside support. Good police work by Indonesian security forces, with this external help, established that the perpetrators of this attack were Indonesians, who may have had outside help through Jamaah Islamiyah — a radical Islamic group with Al-Qaeda links operating throughout Southeast Asia.

With unprecedented speed, the Megawati government pushed through a strong internal security regulation that gave security forces much more flexibility in meeting the terrorist threat. The government has so far arrested 15 suspects, including the highly visible Muslim cleric Abu Bakar Ba'asyir, and they are tracking a dozen or so more. There are credible reports that an Indonesian national known as Hambali is the director of Al Qaeda operations in Southeast Asia. In her New Year's address to the nation delivered from Bali, President Megawati called on the nation's security forces to dig out the terrorist network "to its roots".

The Bali attack may well prove to be a major error by the terrorists. It has clearly shown that terrorism is not just a US problem but that it is a threat even to the world's largest Muslim nation. It has activated the government in a way that few other things could and encouraged moderate Muslims, many of whom remained silent after the 9/11 attacks on the US, to come out publicly against the terrorists.

It should also be noted that the Megawati government has other achievements, which have been welcomed by the United States and others. Notable is the peace agreement with Aceh signed in Geneva in December 2002. Implementation of the agreement will be difficult, but it holds hope to end the violence and killings which have plagued the province for a generation.

CONCLUSIONS

Americans and Indonesians have much in common, and they share many similar objectives. Both occupy large, multi-ethnic, resource-rich nations, and both play important roles in world affairs. For Indonesia, the US is a source of economic and political support and a stabilizing force in international affairs (what Indonesia used to welcome during the Cold War as an "over-the-horizon presence"). Indonesia's importance to the US, in addition to the aforementioned factors, stems from three basic points: (1) a united, prosperous Indonesia is critical as the anchor of stability in Southeast Asia; (2) the move to democracy by the world's fourth largest nation is of critical importance internationally; and (3) Indonesia's role as the most populous Muslim nation — and one which is basically moderate

— gives it major importance in what is likely to be a long struggle against Islamic militants. These factors highlight the essential need for the two nations to work together.

At the same time, both Americans and Indonesians are proud and sensitive. This, as mentioned above, has created problems in the past as the two have on important occasions talked past each other. Indonesians complain about what they see as American "arrogance". They are not alone in this. Washington needs to be more patient and more careful not to back Megawati into a corner where she has to choose between the West and Islam. Indonesia is moving in the right direction, and it will do so at its own pace. The US should open all channels of communication with Indonesia, including the military. It will not be a player in military reform if it does not talk to and work with the parties concerned. The US should also, as one American academic put it, "demustify" its style, lower its demands that Indonesia "must" do this or that, and listen more carefully.

Indonesia, for its part, needs to move more aggressively to protect foreigners from murder, harassment, and "sweeps". Two Americans and an Indonesian working for a US company were to all appearances deliberately murdered in Papua several months ago. Indonesian police have charged that military elements were involved, but there has not yet been a credible public investigation. This will haunt the relationship until it is resolved. In its own interests, it would also be useful if Indonesia took action against egregious human rights violators of the past.

History indicates that there will continue from time to time to be differences between the two nations, but it also indicates that the longer-term trends are toward closer cooperation. It is in the interest of both countries that this should continue.

Finally, it is important to note that it is now clear that militant Muslim groups are a factor to be reckoned with in Indonesia. This portends a fundamental change in Indonesian society. It has always been said that Islam in Indonesia is moderate. This is still the case, but there is change in the air. A majority of Muslims polled recently by *Tempo* magazine favored imposition of Islamic *Syari'ah* law for Muslims. This is a movement that has been present since the earliest days of the republic. It probably will not happen, but the outside world needs to be aware that support for such moves is probably on the increase and that outside developments could give it additional impetus.

For some years, there has been a growing sense in Indonesia of being Muslim. More Indonesian Muslims are now conservative, and few others are radicals. Professor Robert Hefner of Boston University, an expert on

Indonesian Islam, was quoted in the press recently as saying that this is "the struggle for the very soul of Indonesian Islam". This struggle will be decided upon by the Indonesians, but it is important that the US and other outside forces help where their help will be constructive and avoid actions that may further complicate the situation.

Part 5

FUTURE SCENARIOS

An Outlook on Indonesia in 2003–2004

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Indonesia seems destined to have a rough ride on the way to stability and democracy. Just as the country appeared to have achieved a measure of calm after a violent political transition that began in May 1998 with the fall of Suharto, a new calamity surfaced in the shape of Islamic extremism seemingly plugged into a global network of terror. The Bali bombing that killed almost 200 people, mostly western tourists, on 12 October 2002 left the country reeling and vulnerable under uncertain political leadership with elections less than two years off.

The bombing and its aftermath exposed grave weaknesses in the provision of basic security and highlighted the extent to which Islamic militancy is more than simply a fringe problem. In an interview with the *Far Eastern Economic Review (*FEER*)*, Singapore's Senior Minister Lee Kuan Yew revealed intelligence estimates of 100 radical groups in Indonesia with a total of several thousand members. Lee's gloomy assessment of the Islamic threat in Indonesia was supported partially by an authoritative International Crisis Group (ICG) report authored by Sidney Jones and published in mid-December 2002. Jones concluded that the network of Muslim extremists committed to waging holy war or *jihad* was wider than previously believed, and that the US-led war on terror has replaced internal religious strife as the focus of their campaign.[1]

Quite apart from the immediate challenge of rounding up those bent on committing further acts of violence, the Bali bombing left many countries in the region and beyond, wondering whether Indonesia might not be better off under a firmer, less free wheeling leadership. The view recalled dictator-coddling sentiments from the Cold War era — and is echoed in Indonesia by some who miss the relative stability of the Suharto era. However, as western donors and regional neighbors lamented the lack of strong

1 For the interview with Lee Kuan Yew, see "What Went Wrong?" in *Far Eastern Economic Review* (FEER), 12 December 2002. Also, "Indonesia Backgrounder: How the Jemaah Islamiyah Terrorist Network Operates," International Crisis Group (ICG), Brussels, 11 December 2002.

leadership and effective control over security, many Indonesians worried that a new anti-terrorist law would set the country once again on a path towards authoritarian, possibly military rule.

In this respect, Indonesia's image in the eyes of the international media has changed. From overseas, Indonesia is now viewed, much as it was at the height of the Cold War, as a threat to regional security. Back in the early 1960s, the rest of Asia worried that poor leadership and ineffective government would lead to a communist takeover and alignment with China. Today, similar problems are seen as driving Indonesia towards Islamic statehood and alignment with an anti-Western, anti-capitalist ideology.

Far-fetched though this scenario is, the tragedy is that five years after the fall of Suharto and the restoration of democracy, Indonesia's political and economic future remains uncertain. The country is adrift; it sorely lacks capable leadership, is bereft of accountability and ripe for a new upheaval that could send the country lurching off in a new direction.

Now, with elections due in August 2004, another volatile ingredient has been added into the mix. No one can be certain that support for radical Islamic ideas is not gaining ground. Optimists point to the country's deep-rooted cultural traditions of tolerance and moderation and the fact that many of the country's Muslim majority profess to be only nominally Muslim. However, culture and tradition are a poor guide to a country that has a history of Islamic radicalism and revolt stretching back to the birth of the nation.

Although Indonesians were at first sceptical, what happened in Bali confirmed that the country was infected by a loose-knit but potent network of Islamic extremists who were bent on waging war against western interests. Even more worrying is the possibility, as indicated by some of the confessions of the Bali bombers, that these groups are acting without substantive external help; that they do in fact represent a home-grown brand of extremism that wants to see Indonesia rid of foreigners. The dawning of this reality threatened not only Indonesia's economic prospects but also had a ripple effect in the region and beyond. Those who had eyed Southeast Asia as a useful hedge against trouble in China began to think again. The region's burgeoning tourist industry took a hit.

The initial impact of the post-12 October situation also upset the political calculus in Indonesia. Before the bomb attack, the chances of re-election for President Megawati Sukarnoputri in 2004 were considered good. Afterwards, she looked vulnerable because of her leadership, which was perceived to be poor by some observers, and a potential surge in support for Islamic parties. Compounding the situation, the build up of anti-

American sentiment ahead of the possible US-led war in Iraq played into the hands of political interests opposed to Megawati.

The prevailing elite consensus supports the status quo, at least until the general election of 2004 — although that shows signs of change. A poorly handled increase of fuel oil price in early 2003 sparked widespread and sustained anti-government demonstrations. At the same time, a group of former military officers and leading figures from the old regime have started amassing a political war chest and courting alternative presidential candidates. There is broad agreement that Megawati still stands the best chance of re-election given the advantages of incumbency, support from the active military leadership, and the absence of an identifiable successor in the wings. Indonesia will elect its next president by a direct popular ballot, and Megawati has the advantage of being a well-known figure.

In broad terms, Megawati has not been a disaster. Until October, Indonesia had achieved a measure of political and economic stability, for which the government can take some credit. The exchange rate had stabilized, some costly subsidies were cut, and a government forecast of 5 percent economic growth for the year (pre-12 October) was not wholly unreasonable. "Monetary prudence and a fiscal policy aimed at restoring medium-term sustainability have fostered macroeconomic stability", boasted the Coordinating Minister for Economic Affairs in a 20 November letter to the IMF.[2]

Even after the economic fallout from the Bali events, the government aims to achieve the 2002 full-year deficit target of 2½ percent of GDP. It claims that revenue performance improved in the second and third quarters, although it admits: "the pace of collections for non-oil revenues has remained below the budget plan." Expenditure was below expectations in a number of areas, the IMF was told, and for the year as a whole, both revenues, which are benefiting from higher oil prices, and expenditures are expected to be broadly in line with the budget. An earlier growth target of 5 percent for 2003 was revised down to the 3½–4 percent range after the Bali bombing. Domestic consumption, spending on cars, houses and other goods, formed the backbone of economic growth and that figure could still climb on the back of healthy consumer spending and higher prices for exported commodities like oil and gas. Indeed, the shopping malls of Jakarta are crowded and restaurants do brisk business. However, the World Bank

2 Letter from the Indonesian government to the IMF, dated 20 November 2002 and released to the media.

estimates that Indonesia needs to grow by 6 percent a year to keep pace with the growth of the labor force.

Appearances can be deceiving, though. Does the measure of macro-economic stability achieved this past year mean that Megawati has grasped the need for far-reaching economic and political reforms? No, not necessarily. Should we conclude that once the terrorist threat is addressed that Indonesia is on the path to recovery? Absolutely not: for the most part these achievements are short term, and are the by-product of relative political calm and a very much-diminished level of expectation. The country's considerable structural problems have not been fixed, and the challenges for the future are, if anything, greater than what has been tackled since 1998.

To be sure, after more than a year in power, the cabinet is intact, no one has been sacked and there are none of the sudden about-turns on decision-making that were the hallmark of the two-year long Abdurrahman Wahid presidency. Not many landmark decisions have been taken, but then again a few basic things have been done. Chief amongst them was the wisely handled issue of subsidies, which has trimmed government expenditure and helped boost confidence in wider investor circles that tough decisions can be taken without the risk of mass unrest. A decision to restore some of the subsidies in the face of popular protests was seen as politically prudent, but doesn't suggest a change in policy direction.

Then there was the sale of Bank Central Asia (BCA) to a foreign consortium, which helped prove that much-needed restructuring is possible. According to government figures, cash recoveries on distressed assets held by the state through September (Rp31½ trillion) exceeded their target by Rp8 trillion. Jakarta also claims to have made significant progress in the divestiture of the government's holdings in the banking system. The sale and purchase agreement for Bank Niaga to a Malaysian-led group was concluded in early November, and the government has announced a revised timetable for the divestment of Bank Danamon. Divestment strategies for the remaining state banks are expected to be announced before the end of 2003.[3]

Much of this restructuring is, however, taking place in a domestic context. Foreign participation is scarce, not just because of a lack of confidence in security, but also because domestic asset prices aren't dropping fast enough. Local business groups seem content to keep asset prices high, giving them

3 The estimates are taken from the 20 November letter to the IMF.

a better chance of buying back their own holdings and not surrendering control to foreign concerns. When foreign consortiums do come in, resulting controversy clouds the deals, as seen recently with the sale of state-run telecom operator Indosat to a Singapore-owned company.

Meanwhile, alarming levels of debt have been tackled, both with the help of prudent spending, concessional terms on new lending and friendly rescheduling. Debt to GDP ratios are now expected to fall below 80 percent, and no one expects an external debt crisis to bring the country down.

Terrorism notwithstanding, the absence of any major outbreak of social unrest or communal violence has helped keep Indonesia out of international and regional headlines. The devolution and autonomy legislation passed in 1999 under the presidency of B. J. Habibie was conceived both as a way of bargaining for political support and staving off destabilizing separatist claims. For the most part, the strategy has worked and an internationally brokered peace agreement with the rebellious province of Aceh was signed in early December.

However, macro-economic and political stability is no longer the most critical issue for Indonesia. The focus of political concern has shifted from one of basic internal cohesion to institutional integrity and reform, especially with regard to the judiciary. Former World Bank Country Director, Mark Baird, said recently that judicial reform is the "biggest gap in the reform agenda" and that he is frustrated that Indonesians are not exerting more pressure for change. Among concerned Indonesians, the tenor of criticism is sharper, reflecting perceptions that Megawati is not interested in solving problems and her cabinet is weak and ineffectual. Although small in scale, and backed by opposing political interest groups with an eye on elections in 2004, anti-government demonstrations are an almost daily occurrence in Jakarta.

Here is where Indonesia's slow pace of reform is taking its toll. It simply is not possible for multinational corporations (MNCs), already pulled towards China by competitive costs of labor, to be confident of any security if the judiciary and the courts fail to respect internationally binding agreements. The recent Manulife case, which saw a local company able to hold its foreign partner to ransom with complicity alleged at high levels of the judiciary, highlights the most significant obstacle to higher levels of foreign investment in Indonesia. In 1997, Indonesia approved US$34 billion

4 Sadanand Dhume, "Sony Signs Off", *Far Eastern Economic Review*, 12 December 2002.

worth of foreign investment. The figure in 2001 was US$9 billion.[4] Key investors like US footwear maker Nike and Japanese electronics giant Sony are relocating manufacturing plants to outside the country. More startling is the steep fall in Japanese investment in Indonesia, a country that once pumped billions of dollars into the country before 1998, but now has approved investment at one-fourteenth the level it was in 1997. Once more than 20,000 strong, the Japanese business community in Indonesia today is less than half that total.

Foreign investors are likely to stay away for a while, and the larger problem of governance that is keeping them away cannot be understated. In today's Indonesia, there's an unofficial price on every conceivable service and officials seek rent without shame or reason. One former senior official described how, if the police call you in for questioning, you must pay to secure release — and even a visit to relatives in jail involves a series of payments at each gate to prison guards. Some high-level investigations into graft and corruption are considered to be little more than exercises in extortion themselves. Court convictions appear to carry little weight for those with money and influence, and the government appears to treat high-level corruption with impunity.

With this appalling lack of accountability and security, it is no wonder that several major MNCs with a long history in Indonesia are planning to pull out. Mark Baird put it rather well when he told foreign journalists, as he was leaving the country: "People are less sure of the government's capacity to function in a more democratic and decentralized environment. Some are despondent about the prospects for reform, while others long for the strong leadership and greater certainty of the past."

There is no question that certain members of the Megawati government would like to see the problem of corruption solved. Indeed, in the 20 November letter to the IMF, the government said it was "pressing ahead with legal and judicial reforms". The immediate priority, it stated, was given to the establishment of an Anti-Corruption Commission, but it is hard to imagine a quick fix: Indonesia's crusty and corruption ridden bureaucracy will not respond to reform unless and until the money can be found to pay its senior officials a large enough salary to obviate the need for additional income sources. Civil society remains weak and has to fight against a prevailing political culture of power vested in personalities rather than institutions, as well as the vestiges of authoritarian rule. These are major challenges that will likely only be broached once the country is in a position to fund a much higher budget deficit and allow a broader level of participation in the political process.

Meanwhile, the pool of available resources is large enough for a selfish elite that has always lived off the country's natural wealth, to continue benefiting from a narrow base of distribution. Thorough structural reform, if effective and sudden enough, would wreak havoc with the current social hierarchy, which explains the passive resistance to reform in liberal and intellectual circles. If officials did not take bribes, then a large number of people who currently cut corners on the path to prosperity would surely lose out or feel a lot less secure. As the transparency specialists always say, you need to curtail the bribe-paying before you can deal effectively with the bribe-taking.

Sadly, it is very hard to predict any real change to the prevailing situation unless and until there is a more far-reaching social and economic restructuring. The political change that brought democracy to Indonesia was relatively painless by comparison. Now there is the need for a more thorough transfer of leadership, from a generation that has grown accustomed to not being questioned and deriving great wealth from public office, to one imbued with the idea of serving people. Education is required to inculcate values of public service and responsibility across broad swathes of society — not just a tiny elite that then gets carried away with notions of its own indispensability.

The longer the country goes without these changes, the more people will be persuaded that the best path to prosperity is firm, authoritarian rule that dampens protest and maintains cohesion. That is why the recent constitutional changes should not be taken at face value. There is no doubt that the direct election of the president agreed upon by political parties in August 2002 is a step towards greater pluralism, but with the parties likely to contest that election drawing mainly on old generation politicians and with very few new faces at their helm, it remains to be seen how faithfully they adhere to the spirit of democracy. Already, it is possible that under new rules of proportional representation, voters will not be able to directly elect their own representatives at the national level.

Nevertheless, the elections of 2004 will be a critical test for Indonesia's democracy — and for the integrity of its economic reform program. There will be pressure to roll back corporate reform and restructuring and keep local firms out of foreign hands; there will also be protectionist pressure in a bid to win popularity at the polls. Reform could take a beating and the currency could lose some of the stability it has experienced over the past few months.

On the political front, the elections will test the ability of major political parties like Megawati's PDI-P to resist the temptation to harness the

military in a bid to retain power. The PDI-P is one of the only parties that actually favors military personnel to vote in 2004. To be sure, the constitution has now been amended to introduce a direct vote for president, but implementing regulations have yet to be drawn up. Only the most optimistic observers believe that the party in power will make it any easier for a competitor to win. The fear is that Megawati has drawn close to the military leadership which, deprived of exposure to professional training overseas over the past decade, is not so convinced of a need to relinquish its role in politics.

Leading Indonesian military analyst Kusnanto Anggoro describes internal military reforms as superficial and notes that whilst the army decided to quit parliamentary politics at a national level, it has started playing politics more intensely at the regional level, in newly empowered provincial assemblies. Even without direct political participation, the military still exerts influence over political parties and their leaders. As one analyst put it recently, "They officially call this reform a shift from occupying to influencing."[5]

The anti-terrorist legislation recently introduced offers the military a way back into the business of curbing basic freedom and political activity. "Many Indonesians worry that a new anti-terrorism 'decree in lieu of legislation' adopted last month will permit sweeping arrests of politically radical but non-violent Muslims or of supporters of independence in Aceh and Papua," writes Sidney Jones, the ICG's Indonesia project director. "The new decree allows looser rules of evidence than does the Indonesian Criminal Code, including the use of intelligence reports as a basis for arrests. While those reports have to be reviewed by a judge, the Indonesian court system is so weak and corrupt that judicial review hardly constitutes a meaningful safeguard."[6]

Then there is a potential threat from Islamic parties, which have built support on a decade-long trend towards piety and popular demands for accountability. There is no prospect at this point of Indonesia turning into an Islamic fundamentalist state — and no one sees a broad Islamic coalition gaining political power as even remotely possible — but it is easy to underestimate the Islamic factor in Indonesian politics. What is more likely is that Islamic political forces will win too much support to ignore. Both Megawati and her more voluble Vice-President Hamzah Haz have trod

5 Quoted in "TNI remains Powerful, no headway in reforms", *Jakarta Post*, 9 October 2002.

6 Yale Global online, 6 December 2002.

carefully around this sizeable constituency. In as much as the country has a swing vote, it is the Muslim lobby that can tip the political balance, as it did in 1999, when Abdurrahman Wahid pipped Megawati at the winning post to take the presidency. (In 1955, the sizeable vote garnered by Muslim parties, in what was probably the most democratic election the country has held in its history, helped propel the country towards authoritarian rule.)

Many observers point to a fractious Islamic political lobby that can never forge a united front. This is true, but may not be the point. Even with as little as 25 percent of the vote, a basket of Islamic parties could influence key political decisions — though probably not dominate the leadership. Worse still would be a situation where the Islamic faction is kept out of government, leading effectively to a Malaysian-style situation where the Islamic party is in opposition to the ruling government coalition. That could threaten the smooth passage of liberal and market opening reforms and force the government to make concessions to Islamic interests. Business confidence would suffer another blow.

Meanwhile, the military is busy consolidating its influence over local politics, with the shrewd reasoning that devolution has shifted the locus of power to the regions. The best reading of the military's decision to yield seats in the national level assembly is that this was not a battle worth fighting. Instead, the military is focusing efforts on retaining influence at the regional assembly level, and in fact most of the country's regional governors still have a military background.

What does all this mean? Another term for Megawati would probably be good for stability, but it will maintain a disappointingly slow pace of reform. If Megawati manages to retain her mandate, it will be because she has proved friendly to pro-status quo interests, confers with the military on major decisions, and looks after elite interests. Reform, both on a political and economic plane will proceed at a halting pace and there will always be the prospect of popular unrest. Alternatives include National Assembly speaker Amien Rais, and whoever takes over the helm of the former ruling party Golkar, which still commands a sizeable share of the national vote. There are now moves to draft leading social figures like moderate Islamic leader Nurcholish Madjid and leading businessman Aburizal Bakrie, although for now they lack the party affiliations needed to win a direct election.

What then does Indonesia really need? Perhaps a Lula, a charismatic leader representing popular interests who can sweep away the remnants of selfish authoritarian rule? The majority of Indonesians are poor and have no voice. Most Indonesians are poorer now than they were in 1997 —

living on less than US$2 a day. Labor, although now more organized is still woefully weak. With higher unemployment, more and more people rely on patronage for support. It is not hard to imagine a popular response to a leader who claims to represent grassroots concerns.

The fear in military circles as well as in the outside would be that such a leader could well spring from the Islamic grassroots and bring along notions of Islamic statehood. It could well be someone like Golkar activist Din Syamsuddin, who is secretary general of the Indonesian Ulama's Council (MUI) and who could well succeed in becoming the leader of the mass Muslim organization Muhammadiya.

The fear of Islam gaining political ground in Indonesia, although not a foregone conclusion, will steer outside support towards a firm but cautious leader drawing on military backing to maintain order and overseeing a slower progress towards greater democracy. Many Indonesians with a vision of a more liberal, tolerant society will be disappointed, a view that helps explain why domestic media interpretations of terrorist threat in Indonesia are sceptical. There is a long tradition in Indonesia of using the need to foster stability as an excuse to curb freedom, but then many that benefit from the prosperity that stability brings could well get used to the idea — much as they did under Suharto in the 1980s.

A Vision of Indonesia's Political Future by 2020

Marzuki Usman
Chairman, National Awakening Party (PKB) of Indonesia

INTRODUCTION

Indonesia is still a very young nation. The nation of Indonesia was founded on 17 August 1945, when its two leaders Sukarno and Hatta declared its independence from the Dutch. That was the right decision at the right time because until that date, Indonesia had a power vacuum. Japan had surrendered on 15 August 1945, and the allied powers had not landed on the shores of Indonesia as yet. Later, the Dutch colonial government rode on allied shoulders and shrewdly, inch by inch, re-occupied Indonesia. By early 1949, the Dutch had completely re-occupied the urban areas.

Then, with the help of US President Harry Truman in mid-1949, the Dutch were forced to surrender and return Indonesia's sovereignty as an independent nation. The US did this because it was afraid of the threat that Southeast Asia would turn Communist since Mao Tse Tung had won in mainland China and forced Chiang Kai Shek out to Formosa (Taiwan). Therefore, one can conclude that the nation of Indonesia started to emerge in 1949.

When the first Dutch delegation landed in Banten in 1596, Indonesia still had many small kingdoms all over the archipelago. The Dutch then colonized the country for 350 years. In 1928, Indonesians ended this long period of colonization with a declaration of themselves as one nation.

As this short introduction illustrates, Indonesia has had a long and complicated history. Our journey to independence has been tough, and our journey to democracy has been, and still is, difficult, too.

Therefore, I would like now to raise a critical question as we look at Indonesia's 2004 election and its political future. Will Indonesia be able to continue its existence as one nation by year 2020? I will attempt to answer this challenging question honestly by presenting two opposite views. The first is a pessimistic one which hypothesizes that Indonesia

will be divided into many countries and many nations by 2020. The second is an optimistic one which believes that Indonesia will carry on as one nation by 2020 and beyond.

THE PESSIMISTIC VIEW

Let me try to vision some of worst-case scenarios that would make Indonesia no longer a nation by 2020.

(1) From 2003 to 2010
Up until now, because of declining economic conditions, the number of suppressed and depressed people has been increasing steadily since 1997. The number of unemployed people has already reached about 40 million, and the number of people living below the property line has already reached 100 million. This is a time bomb that could explode at any time. When these people lose their patience, their anger and frustration will beget social revolution. If these revolutions occur, the people would call for complete independence from Jakarta and, consequently, Indonesia could disappear from the world map and re-emerge as many smaller countries, like East Timor.

(2) Year 2010
This is the year when Indonesia exhausts its oil reserves, and it ends up having to import oil. If Indonesia cannot afford to import oil, it would give many regions an incentive to forsake their allegiance to Indonesia and declare their own independence. According to natural law, if being united as one country leads to the lives of the people being worse off, then it is better to break up and set up their own countries.

(3) Year 2020
This is the year in which globalization would have reached every corner of the archipelago of Indonesia. If Indonesia's economic agents — individuals, companies or institutions — cannot compete with the rest of the world, then others would colonize Indonesia in economic terms. In turn, this would force many ethnic groups to set up their own countries, and that would be "the end of history" for Indonesia.

These are three large potential threats to the existence of Indonesia as one nation. In addition, there are also a number of micro scenarios that could follow, such as:

(a) The general election of 2004 fails, because many middle-class people have lost their trust in the political parties. Hence, they do not participate in the election.
(b) The practice of corruption, collusion, and nepotism (KKN) cannot be eliminated. This, in turn, may beget a feeling of distrust in the political system and the government, and it might eventually result in a chaotic situation.
(c) The problem of separatism in Aceh, Papua and the ethnic clashes in Maluku and Poso cannot be resolved satisfactorily. If this is the case, then it could possibly become an epidemic that endangers the whole archipelago.
(d) The number of political parties that are registered to participate in the next election has reached over 200. People become confused over which party to vote for in the election. Moreover, because it will be hard for any political party to gain strong votes, the legislative process becomes more complicated.

THE OPTIMISTIC VIEW

Let us now explore the following scenarios of Indonesia moving forward as one nation beyond 2020.

(1) The Indonesian People's Assembly — which is the highest body that has the power to change the basic Constitution, elect the president and vice-president, and stipulate the State Policy Guidelines — had, at its last congressional session in July 2002 decided to alter the basic Constitution. This should not be possible under the Suharto regime. The Assembly agreed to the following premises:

    (a) the president and vice-president have to be elected directly by the electorate, that is, direct election as opposed to indirect election as in the past;
    (b) no more discrimination between indigenous and non-indigenous (ethnic Chinese) Indonesians by eliminating the usage of the term "non-indigenous" in any law; and
    (c) the constitution will not include statements that Muslim Indonesians have to practice *Syari'ah* (Islamic) Law. This is to express Muslims' tolerance of non-Muslim Indonesians' religious beliefs.

(2) Indonesia, even at an embryonic stage, has managed to uphold a significant degree of democracy. It has proven that the general election held in 1999 turned out to be one of the most democratic general elections in less developed countries (LDCs). Given the youth of Indonesian democracy, it is encouraging that every five years, the people can elect their president, vice-president, and representatives from each province. This means that the democratic process has already been set firmly into place.

(3) It has been shown that the people at the lower strata of Indonesian society know how to practice direct elections. When the National Awakening Party (PKB), Jakarta chapter, conducted "Freedom Vote" to elect the governor of Jakarta for 2002 to 2007 on 31 August 2002, 200,000 voters turned out and voted. They practiced direct elections. Hence, I am sure that in 2004, Indonesia will be able to conduct and have a fair direct election of the president and vice-president.

(4) Even though at present there are more than 200 political parties, it has been agreed that only parties which have more than 20 percent of the votes will be qualified to nominate the candidates for president and vice-president candidates. For a party that has less then 20 percent of the votes, it has to collude with other parties in order to reach that number to be eligible for candidate nomination. By definition then, the candidates for president and vice-president will not be more than five pairs. I predict that in 2004, Indonesia will have a president that knows how to give equal opportunities to every Indonesian to become rich. He or she will skillfully ensure that the state gives 100 percent protection to the ownership of private property. He or she will reallocate land ownership to every household equally. He or she, with close co-operation with Parliament, will enact laws on witness protection programs, good public governance and transparency, and corporate governance. This president will, within a decade, move Indonesia forward on par with China. This is important because the world needs Indonesia to balance a rising China, so as to create stability in East and Southeast Asia.

CONCLUSION

After presenting the two contrasting views of Indonesia's political future, I find myself believing in the optimistic view. I am sure that the 2004 election will be successful and that it will be a new start to democracy in

Indonesia. When I visit people who are living in the shanty areas of Jakarta, I find that everybody understands the concept of direct election and its process. They also want to become rich, although they do not yet know how. Therefore, the very importance of the election in 2004 for Indonesians lies in choosing the right president — one that will and can give everybody a fair opportunity to become rich. This, in turn, will hopefully be the foundation on which to build a democratic tradition that will continuously deliver effective results in future elections. That will be the way for Indonesia to move forward to 2020 and beyond.

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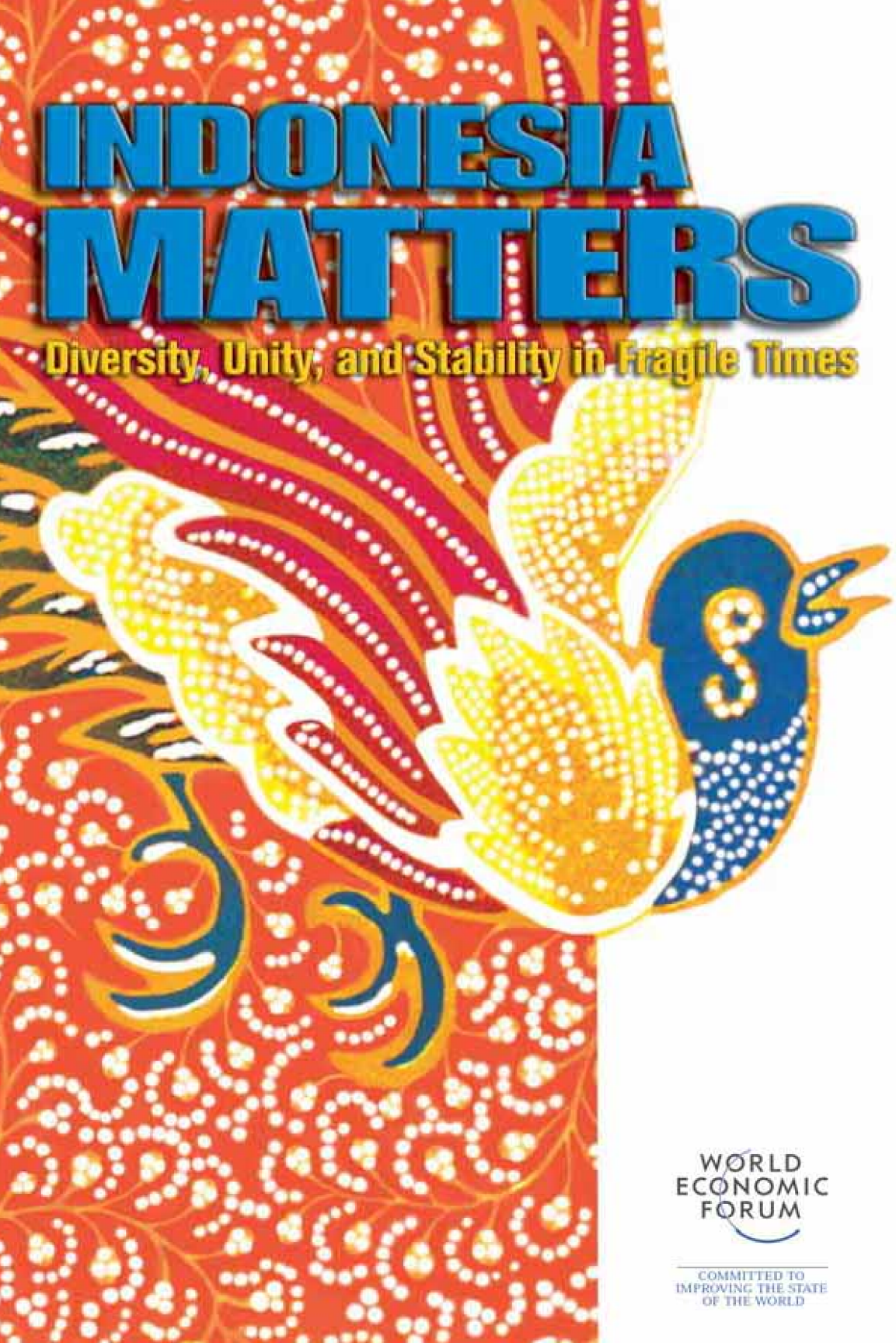

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